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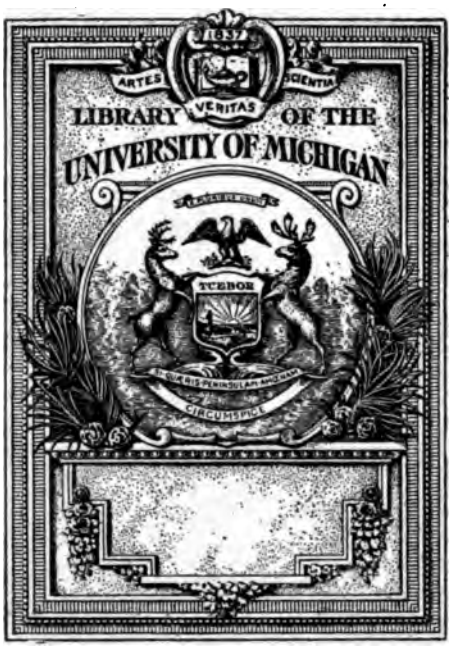

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War and Armament Expenditures of Japan, by Giichi Ono.

WAR AND ARMAMENT LOANS OF JAPAN

BY

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NOTE BY THE DIRECTOR

The plans of the Division of Economics and History of the Carnegie Endowment for International Peace have been transformed by the World War. Problems now calling for study transcend in importance those with which this Division has been dealing and material for research and record so far transcends any that was formerly available that it will demand almost exclusive attention for some years to come. A new world has evolved suddenly out of the world which we knew and the transformation extends to the foundations of government and of economic life.

The process of warfare itself is now so unlike that of former days that many military rules of the past have gone into the scrap basket. The late war ended when its deadliest tools had barely been brought into action. The peoples have fought as they had worked, by machinery, mechanical and chemical engines of destruction have decided the result and will decide in like manner the result of all wars of the future. Machine shops and chemical laboratories will so largely determine what armies shall win that fighting strength will be as much a matter of available capital and of science in applying it as of numbers of troops and strategy in directing them. It is safe to say that the death dealing arts and instruments will far surpass in destructiveness those which made the late war so deadly, and to a soldier of the future the order to march into a cloud of poisonous gas and a whirlwind of missles will resemble an order to plunge into the rapids of Niagara. This is one central and obvious fact which the war has taught us and it has many corollaries, some of which have to do with the increased costs of war and the importance of the particular resources that make a nation powerful for offense and defense; but there are less conspicuous economic facts which are more fundamental, since they may determine where and when, if at all, wars shall hereafter occur.

Causes of warfare are always partly economic and those which incited the recent one were mainly so. The business plans of a powerful state reached to the ends of the earth

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and so crossed and interlaced the claims of other states that some writers, then and afterwards, pronounced the war inevitable. If we assume a settled purpose on the part of such a state to encroach on the rights of others, we may say that it doubtless was inevitable. The victory of the defending countries has saved them from an immediate and intolerable domination, but it can not be taken as an assured fact that similar attempts will never again be made. The economic inducement continues and the means may at some time be forthcoming.

Within the several states war has democratized industry, giving to labor an increase of control—a change that if continued will entail momentous consequences; but still greater effects have been produced on the relations of states to each other. The world as a whole has changed more than its component parts and the new relation of the parts to one another is the critical element in the situation. The great increase in the economic functions of governments is one cause of this condition. Within the great international community in which the several states are units extensive economic functions have gravitated into the hands of governments and caused them to face each other as business rivals and to deal with each other in a multitude of ways in which the merely self-seeking policy of private business is intolerable. Power to invoke principles of justice and international law as interpreted by a competent court has become an indispensable means of allaying strife and this fact exalts to supreme importance the high court of nations which has just been established. It magnifies also the importance of the economic facts and principles with which the law itself will have to deal. It is not merely individual men or private corporations who now meet each other in the rough and tumble of a world-wide mart but states themselves, each representing its own population and seeking to foster its interests as a zealous and faithful agent. The chances of friction that are inherent in ordinary commerce inhere today in vast international transactions and will increase in the measure in which the intercourse grows. All this means a

great increase in incentives to warfare, on the one hand, and in the motives for preventing it, on the other. Private commerce unites more than it separates those who participate in it, and it remains to be seen whether international commerce will act in the same way; but, in view of what modern war means, the human race will deserve to perish, and much of it will probably do so, if the forces of strife are allowed to get the upper hand. Whether they will or not—whether the recent economic changes will tend to reduce warfare or to increase it—depends on the ability of nations to create and maintain the instrumentalities that in the new state of the world are necessary.

Certain it is that the feeling which prevails today, the world over, is not one of security. The dread of further war is greater than it was before 1914. In some areas war still prevails, in others peace is held by a precarious tenure and in all it can be firmly established only by conscious and intelligent action by the states themselves. Mere exhaustion holds war dogs temporarily in leash, but it will take more than that to tame them as they must be tamed if peace is to endure.

We here confront a wide difference between the several states in comparative desire for peace and disposition to maintain it. One portentous fact is the grim determination of Russian communists to extend their system by crude force from state to state. Bolshevism is government by the few and largely the bad masquerading as government for and by the people. In its mother country, Russia, the economic measure by which it began its career was confiscation of private wealth—in itself an ultra-democratic measure. If this had brought in a true communism, it would have been a ruthless and unjust measure for creating a peace-loving state. A just and orderly democratizing of industry in the several states would give new strength to the forces of peace, and it would be highly improbable that any state so influenced would try to extend its system over foreign countries by military invasion. Democracy, socialism, communism and bolshevism all appear in the aftermath of the war. The first of

them makes for future peace and so does even the conservative element in the second, while all else in the series means certainty of civil strife and danger of international war.

The fact that during the war governments had to take on innumerable functions that were formerly in private hands has lent an impetus to socialism and to the perverted growths that have accompanied it, and it has created a new international system the meaning of which is profoundly significant, though he who runs can not so easily read it. There are dangerous features in the system which the war evoked and, happily for mankind, there are available safeguards which were evoked with them and need to be retained if human effort can do it.

By a compulsion that there was no resisting, the war forced the nations of the Entente into economic cooperation with each other. Commissions centering finally in the Supreme Economic Council adjusted in a harmonious way questions that would otherwise have led to rivalry and conflicting action in purchasing war materials, securing ships, apportioning food, controlling railroads, financing the war and doing a multitude of other things with the one common purpose of victory. The special compulsion of the struggle is over, but it has left an aftermath of issues grave enough to make peace insecure unless something equivalent to the Supreme Economic Council survives in full efficiency. The agency that did so much to win the war can do so much to prevent another one, but to that end it will have to be guided by economic principles and it is a saving fact that these still survive. The war has not abolished the law of demand and supply, though governments may forget it. In the coming era they must build better than they now know. Economic knowledge must either go in advance of action and prevent disaster or follow action and be learned from disaster. Beyond computation is the importance of attaining the knowledge and using it when evil impends and prevention is possible.

JOHN BATES CLARK,
Director.

NEW YORK,
September 27, 1920.

PREFACE

The main object of this investigation being to examine into the war and armament loans of Japan, the historical, statistical and economic effects of this subject are here related. At the same time, the author, feeling it necessary to give to foreigners a general conception of the history of public finance and the money market in Japan, has done his best to this end. Statements and statistics concerning public finance and the money market, therefore, are mentioned continually from the first year of the Meiji Era to the present time, so as to show the connection of every fact. Besides, the author has done his best to make clear the difference between loans concerning war and armament and the other loans.

As a result of investigation, I find that the war and armament loans of Japan, which consist of foreign loans in the greater part, reached to a great amount, and their economic effects were very severe. First, with respect to public finance, the amount of loan expenditures reached to about a quarter of the annual expenditures and consequently the burden of taxes was greatly increased. Secondly, with respect to the money market, not only when loans were raised or redeemed did the rate of interest change irregularly, bringing panic in the economic world, but the money circulation between the central city and local districts became disproportionate and the evils of centralization of capital were encouraged. Thirdly, in the matter of foreign trade, though exports increased according to the development of industries, the excess of imports increased so irregularly in consequence of foreign loans that there were sometimes crises in the conversion system. Fourthly, in industries, generally speaking, there was, of course, rapid progress; but by the panics caused by raising or redeeming of loans, the development of industries was prevented and especially manufacture could not

escape from the condition of small scale and infantile arts. Fifthly, as to social effects, prices rose high on account of the increase of currency and on account of consumption taxes, and paupers and emigrants increased because saving was impaired, wages not rising according to prices.

In the investigation of this subject, the materials were collected chiefly from books and magazines already published, as enumerated in the following pages. Moreover, by the good will of the officials of the Department of Finance and the Department of Home Affairs, the author obtained various materials from the governmental documents which are not yet published. The manuscript of this volume at first amounted to five hundred and fifty pages, but afterwards it was abridged to three-fifths of that number. I regret that this manuscript could not contain the full materials which were collected.

USHISABURO KOBAYASHI.

TOKYO, JAPAN,
April, 1916.

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EXPLANATORY TABLES

Value of Japanese Currencies

Japan adopted the gold standard system in 1871, but the inconvertible paper money became principal currency a few years later. In 1886 the paper money became convertible into silver and after that date the Japanese currency system was the silver standard *de facto*, until on October 1, 1897, the gold standard system was legally adopted. The figures necessary to ascertain the value of Japanese currencies are given below:

(1) 1 gold *yen* (according to Coinage Law of 1871) contains 1.5 gramme pure gold.

(2) 1 gold *yen* (according to Coinage Law of 1897) contains 0.75 gramme pure gold.

(3) 1 silver *yen* contains 24.261 gramme pure silver.

(4) The value of 1 silver *yen* in the English currency (according to the demand rate of exchange on London in the average of the year) is as follows:

	s. d.		s. d.		s. d.
1874.....	4.02.0	1882.....	3.08.8	1890.....	3.04.5
1875.....	4.00.8	1883.....	3.07.9	1891.....	2.02.6
1876.....	3.11.2	1884.....	3.07.9	1892.....	2.10.5
1877.....	3.11.7	1885.....	3.06.0	1893.....	2.06.7
1878.....	3.09.4	1886.....	3.03.2	1894.....	2.01.2
1879.....	3.08.0	1887.....	3.02.0	1895.....	2.01.3
1880.....	3.08.9	1888.....	3.01.0	1896.....	2.02.0
1881.....	3.08.4	1889.....	3.01.1	1897.....	2.00.4

(5) The value of 1 *yen* of paper money in the English currency (calculated on the basis of the above mentioned exchange rate and the quotations of the silver price in the Tokyo Exchange in the average of the year) is as follows:

	s. d.		s. d.		s. d.
1877.....	3.10.1	1880.....	2.06.4	1883.....	2.10.7
1878.....	3.05.6	1881.....	2.02.1	1884.....	3.04.3
1879.....	3.00.3	1882.....	2.04.5	1885.....	3.03.7

(6) 1 *ryō* (unit of value of the old currency system) was declared in the Coinage Law of 1871 to be equal to 1 *yen*.

Chronological Table

Meiji 1st	1868 A. D.	Meiji 15th	1882 A. D.
" 2d	1869 "	" 16th	1883 "
" 3d	1870 "	" 17th	1884 "
" 4th	1871 "	" 18th	1885 "
" 5th	1872 "	" 19th	1886 "
" 6th	1873 "	" 20th	1887 "
" 7th	1874 "	" 21st	1888 "
" 8th	1875 "	" 22d	1889 "
" 9th	1876 "	" 23d	1890 "
" 10th	1877 "	" 24th	1891 "
" 11th	1878 "	" 25th	1892 "
" 12th	1879 "	" 26th	1893 "
" 13th	1880 "	" 27th	1894 "
" 14th	1881 "	" 28th	1895 "

CHRONOLOGICAL TABLE—(*Continued*)

Meiji 29th	1896 A. D.	Meiji 41st	1908 A. D.
" 30th	1897 "	" 42d	1909 "
" 31st	1898 "	" 43d	1910 "
" 32d	1899 "	" 44th	1911 "
" 33d	1900 "	" 45th / Taisho 1st	1912 "
" 34th	1901 "	" 2d	1913 "
" 35th	1902 "	" 3d	1914 "
" 36th	1903 "	" 4th	1915 "
" 37th	1904 "	" 5th	1916 "
" 38th	1905 "	" 6th	1917 "
" 39th	1906 "		
" 40th	1907 "		

WEIGHTS, MEASURES AND MONEY

With English, American, French and German Equivalents

Japan	Great Britain	U. S. of America	France	Germany
Ri = 36 *Chō* = 2,160 *Ken* = 12,960 *Shaku*	2.44030 Miles	2.44029 Miles	3.92727 Kiloms.	3.92727 Kiloms.
Ri (Marine)	1.15152 Miles	1.15151 Miles	1.85318 Kiloms.	1.85318 Kiloms.
Square *Ri*	5.95505 Sq. Miles	5.95501 Sq. Miles	15.42347 Km. Carrés	15.42347 Quadrat Km.
Cho = 10 *Tan* = 100 *Se* = 3,000 *Bu*	2.45064 Acres	2.45062 Acres	99.17355 Ares	99.17355 Ar.
Tsubo = 10 *Gō* = 100 *Shaku*	3.95369 Sq. Yards	3.95367 Sq. Yards	3.30579 Centiares.	3.30579 Quadratm.
Koku = 10 *To* = 100 *Shō* = 1,000 *Gō* = 10,000 *Shaku*	4.96005 Bushels	47.65389 Gallons (Liq.) / 5.11902 Bushels (Dry)	1.80391 Hectolitres	1.80391 Hectolitres
Koku (Capacity of ship)	1/10 of one Ton	1/10 of one Ton	1/10 de Tonne	1/10 Tonne
Kwan = 1,000 *Momme* = 10,000 *Fun* = 100,000 *Rin*	8.26733 lbs. (Avoir.) / 10.04711 lbs. (Troy)	8.26733 lbs. (Avoir.) / 10.04711 lbs. (Troy)	3.75000 Kilogs.	3.75000 Kilogs.
Kin = 160 *Momme*	1.32277 lbs. (Avoir.) / 1.60754 lbs. (Troy)	1.32277 lbs. (Avoir.) / 1.60754 lbs. (Troy)	0.60000 Kilogs.	0.60000 Kilogs.
Yen = 100 *Sen* = 1,000 *Rin* = 10,000 *Mō*	2.0.582 s. d.	0.4984 Dollar	2.583 Francs	2.0924 Marks

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PART I

HISTORICAL SURVEY OF PUBLIC LOANS FOR WAR AND ARMAMENT

CHAPTER I

INTRODUCTION

According to their history, and the aims for which they were raised, the public loans of Japan are usually divided into the following:

(1) Public loans for the reform of political institutions.

(2) Public loans for war and armament.

(3) Public loans for the encouragement of domestic industries.

(4) Public loans for the adjustment of finance.

(5) Public loans for the government of new territories.

The above are all funded, or at least quasi-funded loans, and we ought to add to these another:

(6) Floating loans.

The main subject of the present investigation consists of the history and statistics of funded and floating loans for war and armament. The extent of this class of public loans can not be exactly defined. First, loans for the reform of political institutions are so closely intermingled with this kind of public loans that it is next to impossible to draw a clear line between these loans and those which form the subject of this treatise. Public loans for the reform of political institutions were loans in connection with the work of the Meiji Restoration, and the object of their flotation lay in defraying the expenses of the reorganization of old clans, and measures taken with regard to it. The reform, however, gave rise to several internal calamities, which naturally demanded expenditure on conquest, pacification or repression, and subsequently on the postbellum relief work. Secondly, loans for financial adjustment were loans with respect to the redemption and adjustment of old debts. In those cases in which the old debts had been contracted in connection with war and armament, the corresponding new loans would in theory

belong to the category of war and armament loans. But as a matter of fact, these kinds of new debt were floated in the same form as other kinds of old loans, and included in the so-called financial adjustment loans. Thirdly, loans for the encouragement of home industries included some items which, in fact, belong to war and armament loans. For example, a loan, issued with the name of the Government Undertaking Loan ("Jigyo Kosai"), was one which aimed at national defense. It is difficult to distinguish them accurately and to know their exact figures in each year. The above three are mere instances of intermingling, and there are many other such cases. Lastly, floating loans were mostly issued for the express purposes of war and armament, but cases are not wanting in which they were included in the loans for replenishing the deficit of the general account. In such cases the setting apart of war and armament loans is quite out of the question.

Such being the case, the extent of war and armament loans is by no means clear and well defined. The present investigation chiefly concerns itself with war and armament loans which are expressly so indicated. In case, however, there exist other loans closely connected with war and armament loans, we intend to endeavor to clarify their mutual connection that we may ascertain the actual instead of merely nominal war and armament loans.

CHAPTER II

FROM THE MEIJI RESTORATION TO THE SATSUMA REBELLION

The Meiji Restoration was accomplished by the reestablishment of order and the abolition of old clans. When, in 1867, the Tokugawa Shogunate had transferred the reins of government to the Emperor, the regular monarchial government may be said to have been nominally restored. But the whole country was still in an uproar, for not only did the great clans which had engaged in the crushing of the Shogunate not lay down their arms, but the pro-Shogunate clans were determined on restoring the reign of the Shogun. In January, 1868, battles were fought at Toba and Fushimi. In May battles of Uyeno (in Yedo) took place. In September the name of the reign was called Meiji. In October the Imperial palace was removed to Tokyo, and with it the Dajokwan and other government offices. In June an Imperial decree was issued to the effect that the "Daimyo," or feudal lords, should transfer the power of clan administration to the central government. Battles took place, however, successively at Aizu (end of September) and Hakodate (October), and it was not before the end of May of the next year that they were brought entirely to a termination. This ended what is generally known as the War of Restoration ("Ishineki"). On September 1, 1870, the system of clan government by the central administration was put in operation. In July, 1871, a decree was issued for the abolishment of clans and the establishment of prefectures, thus effecting the working of centralized administration, nominally as well as really. But the peace of the Empire was not yet wholly restored. There were many local disturbances in Ise, Shinano, Mimasaka, Ōita, Miye, Miyazaki, Takasaki, Sanuki, Yamagata and Saga. Moreover, the conquest of Formosa, beginning in

April, 1874, and the Korean affair of the following year, 1875, may be numbered among the many disturbances attendant upon the Restoration.

The above is a brief summary of the wars and disturbances in connection with the Restoration, and the expenditure on these was 14,188,308 *yen* in all. The following list will show its details:

EXPENDITURES OF THE WARS CONNECTED WITH THE RESTORATION[1]

Fiscal Period	War of Restoration	Pacification of Local Disturbances	Conquest of Formosa	Korean Affair	Total
	Yen	*Yen*	*Yen*	*Yen*	*Yen*
I. Dec., 1867–Dec., 1868	4,621,633	....	....	....	4,621,633
II. Jan., 1869–Sept., 1869	2,625,644	....	....	....	2,625,644
III. Oct., 1869–Sept., 1870	1,546,984	....	....	....	1,546,984
IV. Oct., 1869–Sept., 1871	114,072	....	....	....	114,072
V. Oct., 1871–Dec., 1872	....	3,637	....	....	3,637
VI. Jan., 1875–Dec., 1875	....	82,404	....	....	82,404
VII. Jan., 1874–Dec., 1874	....	999,502	2,230,376	....	3,229,878
VIII. Jan., 1875–June, 1875	....	86,821	1,387,683	....	1,474,504
July, 1875–June, 1876	....	....	....	489,552	489,552
Total	8,908,333	1,172,364	3,618,059	489,552	14,188,308

The sources of revenue for covering these expenses were manifold. The expenditures with regard to the War of the Restoration were chiefly met by 1,991,670 *yen*, which was levied on the clans, and by 452,964 *yen*, which was the contribution on the part of the people. The deficit was replenished by borrowed money, and the issue of Dajokwan notes. The expenditures for the pacification of local disturbances were met by 802,686 *yen* levy on the clans and 277,530 *yen* contribution on the part of the people. A little deficit was

[1] Based on *Imperial Statistical Year Book*, and *Financial History of the Meiji Era*.

covered by the issue of new paper money. General revenue was appropriated to the expenses of the Formosan conquest and the Korean affair, but since the general revenue included, as an extraordinary item, the issue of a great amount of paper money, these expenses may properly be said to have been met by the issue of paper money.

The following table shows the total amount, in *yen*, of the financial resources with respect to the War of the Restoration:

Levies on the clans	2,794,356
Money borrowed from the rich	10,426,382
Contributions	730,494
Paper money and general revenue	237,076
Total	14,188,308

The above figures apparently show that the need for paper money issue was insignificant, even if we add the paper money for the repayment of borrowed money. As a matter of fact, however, the issue could not remain at such modest figures. In the general account of the year 1868 (the first period), of the total revenue (33,090,000 *yen*), the amount of ordinary revenue was only 10 per cent, amounting to 3,660,000 *yen*, while the extraordinary revenue occupied 90 per cent, amounting to 29,420,000 *yen*. As of this extraordinary revenue the issue of the "Dajokwansatsu" showed 24,037,390 *yen*, it must be said that 70 per cent of the total revenue was raised by the issue of paper money. In 1867 (the second period), of the total revenue, amounting to 34,430,000 *yen*, the ordinary revenue was only 4,660,000 *yen*, while the extraordinary revenue showed 29,770,000 *yen*, which included the issue of paper money amounting to 23,963,610 *yen*, *i.e.*, 70 per cent of the total amount. This phenomenon took place, first because the government was deprived of the revenues in the districts afflicted by disturbances, and secondly because the government was in need of a big sum of money for defraying army and navy expenditures, garrison expenditure, warship expenditure and war relief funds for different clans, aside from the warfare expenditure in the strict sense. In the third and fourth periods the expenditures showed a remarkable decrease,

and the corresponding total of the annual revenue also fell off. The revenues from the districts increased, which brought about an increased receipt in the ordinary revenue,[1] and minimized the necessity of paper money. In the fifth period, however, as there were various outlays for the expansion of military and naval armament, for the purchase of warships, for the construction of ships and shipyards, for the enforcement of the conscription system, and for the suppression of local disturbances, the total expenditures amounted to double those of the preceding period, and the corresponding revenue had to be increased to 50,440,000 *yen*. Of this revenue, the issue of New Paper Money amounted to 17,820,000 *yen*, viz., 34 per cent of the total sum. Thus the paper money issued up to the fifth period were "Dajokwansatsu," Mimbushosatsu and New Paper Money, which attained the aggregate sum of 73,325,439 *yen*. The majority of this paper money partook of the nature of loans on account of the War of the Restoration, local disturbances, or on account of the relief expenditures, and military and naval armament. After the sixth period there were local disturbances on the one hand, and the Formosan and Korean affairs on the other, both of which involved no small amount of expenditures, and also demanded the increase of armament. It seems that New Paper Money was issued to comply with these needs. Thus, the ordinary and extraordinary armament outlays from the first period until the fiscal year 1876 showed 53,454,154 *yen* in military armament expenditures, and 14,770,331 *yen* in naval armament expenditures, totalling 68,524,465 *yen*. The New Paper Money, which had been primarily issued for the exchange of old government paper money, came to be issued for the sake of covering these enormous outlays.[2] Afterward Kinsatsu Exchange Loans were issued to withdraw these paper moneys.

When the local disturbances were nearly suppressed, the government set about the financial adjustment attending the

[1] 5,354,512 *yen*, *i.e.*, 25 per cent of the total revenue, and 2,145,487 *yen*, nearly 10 per cent of the total revenue.

[2] 100,000,000 *yen* in round numbers at the end of the fiscal year 1876.

abolition of old clans. The first task lay in the succession to and adjustment of old clan loans. The second was the disposal of old clan paper money. The third was the adjustment of the hereditary pension system. In the first place, the government divided the old clan loans, of a public nature, into "old loans issued before 1867," and "new loans issued from 1868 to 1872." In exchange for the old loans, the so-called Old Public Loan (amounting to 10,972,725 *yen*), bearing no interest, was delivered, while the so-called 4 per cent New Public Loan (amounting to 12,422,825 *yen*) was delivered in exchange for the new loans. This adjustment was made by the issue of the regulations concerning the issue of New and Old Public Loan Bonds. Of the above two bonds, the New Public Loan may be properly regarded as a loan for the purpose of adjustment of the debts contracted on account of war and armament by the old clans. In the second place, the withdrawal of the Old Paper Money was accomplished by the issue of New Paper Money after February, 1872 (22,908,434 *yen*), and by an outlay of the Clan Paper Money Reserve Fund (888,741 *yen*). We shall not be far mistaken, if we presume that the Old Clan Paper Money was issued on account of the disturbances before or after the Restoration. Lastly, the abolishment of the hereditary pension system was accomplished by the delivery of 7 per cent sterling loan bonds, floated in London, amounting to £2,400,000 (11,712,000 *yen*), 8 per cent Voluntarily-Capitalized Pension Bonds (16,565,850 *yen*), issued in accordance with the regulations concerning the issue of Voluntarily-Capitalized Pension Exchange Bonds, and of Hereditary Pension Bonds (173,902,900 *yen*), with interest ranging from 10 per cent to 5 per cent, issued in accordance with the regulations concerning the issue of Hereditary Pension Bonds. Inasmuch as the hereditary pensions of the old clans had been considered as pay to the feudal vassals, and corresponded to armament expenditure, and inasmuch as the Hereditary Pension Bonds were also issued for the abolishment of the pensions awarded to those who had rendered services in the cause of the Restoration, the Heredi-

tary Pension Bonds may well be regarded as loans for war and armament. In short, Old and New Public Loans, 7 per cent Foreign Loan, Voluntarily-Capitalized Pension Bonds, and Hereditary Pension Bonds may, in a certain sense, be classed as war and armament loans. As the chief object of their issue consisted in the reform of institutions, we exclude these loans from the present investigation. The reader, however, must keep it in mind that, since these loans had a great deal to do with war and armament, they may well be termed quasi-war and armament loans.

If we exclude from our investigation the loans for the reform of public institutions (the establishment of the Restoration), the war and armament loans which form the subject of our research are various government paper moneys, and "Kinsatsu" Exchange Bonds. The government paper moneys include "Dajokwansatsu," "Mimbushosatsu" and New Paper Money. The history and statistics of these several loans will be discussed in the following sections.

"Dajokwansatsu"

The "Dajokwansatsu" was a kind of paper money issued from the "Dajokwan" in the beginning of 1868. The issues of these government notes were entered in the extraordinary receipt items of the annual account, all their disbursements going through the national Treasury. While a portion of them was disbursed as advances to the old clans as a substitute for currency, the greatest part took the form of floating public loans for meeting the requirements of the civil war finances. Inasmuch as these notes failed to be converted into new coins in 1869 according to the public promise which had been made to that effect, this is properly to be looked upon as a sort of compulsory war loan.

At the dawn of the Restoration, the pressure of military affairs, together with the decay of all things, helped to increase in no small degree the expenditures for domestic administration and military affairs, while the annual revenue was not sufficient to cover them. As a temporary measure, therefore,

the authorities resorted to the issue of paper money to replenish the scanty national Treasury on the one hand, and to supply domestic productive enterprises with necessary funds on the other. It was under these circumstances that the "Dajokwansatsu" was issued in 1872. The notification read as follows:

(1) With a view to relieving the general suffering, the "Dajokwansatsu" shall be issued, and its circulation shall be limited to the period of thirteen years.

(2) A loan shall be granted to the clans in proportion to their respective revenues, the ratio being 10,000 *yen* per 10,000 *koku* (49,629 bushels) and the full repayment must be made in thirteen years, redeeming annually 10 per cent of the loan with the "Dajokwansatsu."

(3) A loan shall be granted to farmers and merchants in proportion to their respective earnings, regard being had to the Registry of Social Rank ("Mimoto Gembo"). A reasonable percentage of both principal and interest must annually be repaid.

(4) Conversion shall not be allowed, since the repayment itself is to be made with "Dajokwansatsu."

Apparently, therefore, the object of issuing this note was to grant loans to the clans, farmers and merchants, in order to relieve the public distress. As a matter of fact, however, its aim lay rather in replenishing the scanty Treasury caused by frequent civil wars. The correctness of this inference is supported by various ordinances, notifications and reports of the government issued in this connection, which show that this government note was employed for purposes of suppression of disturbances, for armament schemes and for miscellaneous expenses. Moreover, it was left in circulation, without the government taking any steps to redeem it.

The people at that time were unaccustomed to the use of paper money and they refused its acceptance. This led to the growing up of some difference in value between metallic and paper money, which naturally made the circulation of the latter more difficult. The government was often obliged to publish official notices strictly forbidding any act meant to obstruct its circulation, and to give instructions to all the clans and prefectures to unite their efforts in acquainting the people with the true intent of the ordinance. All these steps

on the part of the government, however, only helped to injure the credit of the government, and to impress upon the minds of the people the undesirability of the acceptance of paper money. Thereupon, the government issued a notification in May, 1869, providing the limit of its issue, with the promise to convert it into new coins by 1872 and to allow 6 per cent interest on any paper money unredeemed after the expiration of the term. As a result, the credit of the paper money gradually rose, and promised a fair prospect for its circulation; but the breach of the promise on the part of the government was soon succeeded by declining credit.

According to the notification, the manufacture of paper money was to be limited to the total of 32,500,000 *yen*. Of this sum, 13,000,000 *yen* in round numbers had been granted as loans to the clans and urban prefectures "fu," 14,000,000 *yen* in round numbers had been disbursed to cover government expenditures, and the remaining sum of about 5,000,000 *yen* was to be appropriated for government expenditure till the receipt of the revenue for the current fiscal year. No more issues were to be allowed, and the printing machines were then to be destroyed.

The government being unable to observe the limit, the "Dajokwansatsu" was actually issued to the amount of 48,000,000 *yen* during the period extending from April, 1868, to July, 1869, thus overriding the limit by about 15,500,000 *yen*. Moreover, the public promise to convert the "Dajokwansatsu" into new coins was not carried into execution,—on the contrary a new paper money called "Mimbushosatsu" was used to redeem the "Dajokwansatsu." This scheme also resulted in failure, and both of these paper moneys were in parallel circulation.

"Mimbushosatsu"

The "Mimbushosatsu" was a minor paper money which began to be issued from the Commercial Bureau of the "Mimbusho" from September, 1869, as an extraordinary source of revenue in the general account.

The "Dajokwansatsu"[1] consisted of five kinds of paper money of varying face value. The notes chiefly issued, however, were major paper moneys, especially ten *yen* notes. The issue of minor paper moneys, such as twenty-five *sen* notes and 6.25 *sen* notes was so insufficient that these were inadequate to meet the needs of distant and remote districts. In addition to this, the copper coins became so scarce among the people that small transactions could not be carried on with ease and smoothness. It was with the object of affording more facilities for these petty transactions on one hand, and of replacing major paper money then in circulation, that the government decided to make the Commercial Bureau issue "Mimbushosatsu." This paper money was issued in accordance with a notification of 1869, and consisted of minor paper money of the following units, *i.e.*, 50, 25, 12.5, and 6.25 *sen*, respectively. The date of conversion was to be announced at a later time by the same department.

Thus as one object of this issue was to replace major "Dajokwansatsu," the issue of "Mimbushosatsu" should have been followed by the withdrawal and cancellation of "Dajokwansatsu." But pressed by the deficiencies of the Treasury during war time, this purpose was utterly disregarded. Not only were the "Mimbushosatsu" issued irrespective of the other, but the "Dajokwansatsu," which had been withdrawn, were again put in circulation. As a matter of fact, therefore, a new paper money was added to the "Dajokwansatsu," which had already surpassed the limit. "Mimbushosatsu" totalled 7,500,000 *yen* between October, 1869, and October, 1870.

[1] Besides the "Dajokwansatsu and the "Mimbushosatsu," two other government paper moneys were issued, viz., the Exchequer Exchange Bonds and Colonial Exchange Bonds. The former bonds were issued by a notification of October, 1871, and amounted to 6,800,000 *yen*. The latter bonds were issued by the written agreement made by the colonial governor during the period between January and April, 1872, and amounted to 2,500,000 *yen*. Both of these, contrary to their names, became inconvertible paper money, but were withdrawn from circulation in 1875. Moreover, as the objects of their issues lay in the adjustment of old gold and silver, and 2 *bu* gold coins, on one hand, and the colonization of Hokkaido on the other, these two loans, which amounted to the aggregate sum of 9,000,000 *yen*, can not be regarded as war and armament loans.

New Paper Money

The New Paper Money consisted of inconvertible notes of a new pattern, which were issued after 1871 to prevent the forgery of "Dajokwansatsu" and "Mimbushosatsu" and to adjust various clan paper moneys. This must also be regarded as a kind of war loan.

According to the government proclamation of May 28, 1869, the "Dajokwansatsu" became convertible paper money and was to be changed for new coins in 1872. The coinage of new coins, however, was an undertaking which had the widest economical and financial bearings, and forbade the hasty completion of the task. Even though the coinage could be accomplished, the possibility of withdrawing the paper money in exchange for new coins would have been quite out of the question, the Treasury having been constantly confronted with a shortage of revenue. But what the people at large considered as evils, and much more unendurable, were the facts that the government paper money already issued was of extremely inferior quality, thus encouraging forgery, and that the so-called "sensatsu" issued by the former clans considerably varied in value, thus wholly depriving them of the nature of legal tender.

Now the origin of this latter widely circulated paper money may be traced back to the "Kambun" Era, when it was issued by the Fukui Clan with the permission of the Shogunate. Many similar issues were made by other clans. When the downfall of the Shogunate had brought about civil disturbances throughout the whole country, all the clans resorted to increased issues of this note, many of them without any permission from the Shogunate. On the abolition of the clans, July 14, 1871, the government, with the object of prohibiting the issue of this paper money, made a thorough investigation, and ascertained the amazing fact that 224 clans, 14 prefectures and 9 estates of direct feudatories of the Shogun had had recourse to this expedient. This paper money included gold paper money, silver paper money, rice paper money and major

and minor paper money, all varieties of which amounted to the large figure of 1,614. The total value was estimated at 38,551,132 *yen*. This sum was found to have been over-estimated and was correctly reduced upon further investigation, but still there existed 24,935,109 *yen* to be exchanged for new paper money.

The circulation of these clan paper moneys was limited to the four corners of each clan, and their value was low from the very time of their issue. Moreover, their manufacture was crude in the extreme, and the system of specie reserve the most imperfect imaginable. Their increased issue, therefore, made their value lower and lower, and often they were as worthless as pieces of waste paper.

Thus the existence of these worthless notes in the market impeded business transactions, caused fluctuations of prices, and worst of all prevented the circulation of government paper money.

This state of things made the government keenly realize the necessity of preventing the forgery of clan paper moneys, and the need of unification of paper money, both those of the clans and those of the government. Thus as early as in October, 1870, the government sent an order to a German firm in Frankfurt to manufacture an elaborate paper money to the value of 103,537,359 *yen*, with a view to exchanging for it all the paper moneys then in circulation. On December 27, 1871, a notification was promulgated concerning the issue of new paper money. It was subsequently discovered that this new note was easily susceptible to injury, thus rendering renewal necessary. Therefore, the government in December of the same year imported the printing machine from Germany, established a paper money factory in the Mint, and set about its manufacture. In December, 1871, the amount of paper money manufactured there bulked to the total sum of 45,904,037 *yen*, and this served as a reserve paper money to be issued in exchange in case New Paper Money already in circulation was injured. With this new addition, the amount of manufacture of New Paper Money was calculated at

149,441,396 *yen*. The New Paper Money already printed was not all issued immediately upon its importation or manufacture, only a portion of it being issued in exchange for "Kinsatsu," or worn-out New Paper Money as the case might be, and the rest was kept unissued in the Treasury as a so-called "reserve paper money." The reserve paper money was issued, contrary to the original purpose, to cover the deficit of the annual revenue, and this sort of issue was technically called "Issue of Reserve Paper Money." The New Paper Money was issued beginning with February, 1872, in accordance with the aforesaid decree of notification of December 27, 1871. The maximum amount of its circulation was attained in December, 1878, when it figured at 119,800,455 *yen*, excepting the "Issue of Reserve Paper Money," which we shall consider later on. The following table gives the details:[1]

(1) Issued in exchange for nearly the whole of the "Dajokwansatsu," the "Mimbushosatsu," the Exchequer Exchange Bonds and the Colonial Exchange Bonds, 61,367,680 *yen*.

(2) Issued in exchange for Clan Paper Moneys, 22,908,434 *yen*.

(3) Issued in exchange for replenishing the deficit of the annual revenue, 8,525,444 *yen*.

(4) Issued in January, 1878, in accordance with a notification of December 27, 1877, to cover the expenditures of the Satsuma Rebellion, 27,000,000 *yen*.

In addition to this, there was an exchange reserve paper money which was issued after 1872. At the end of December, 1878, it reached the enormous maximum of 19,618,116 *yen*. The original purpose of issuing this paper money was equivalent to that of the Treasury bills of the present day, *i.e.*, to obtain temporary cash accommodation for the Treasury. But during the civil disturbance, it was issued in such great quantity, and extending over several fiscal years, that its issue

[1] Of the 24,935,109 *yen*, which formed the total sum of all the clan paper moneys, 888,941 *yen* was redeemed with the so-called "Clan Paper Money Reserve Fund," and 1,136,217 *yen* can not be accounted for. The remaining sum, 22,908,434 *yen*, was, as is shown, replaced by New Paper Money.

came to have the same object as that of New Paper Money, and indeed to become the supplement of the latter.

It was thus that the notification of December 27, 1871, changed the form of convertible government paper money into that of inconvertible New Paper Money, the intent of the notification of May 28, 1869, being completely frustrated. Happily for the government, the people by this time had got accustomed to the use of paper currency, and preferred it to metal. The revision of the promise on the part of the government was, therefore, carried through without any difficulties.

One more word must be added here as to the existence of what is called the "Reserve Fund for the Withdrawal of Paper Money and Public Securities," which was instituted in June, 1872. This fund was, in July, 1878, separated from the sinking fund, and came to serve as specie reserve for paper issues. This specie reserve consisted of 10,000,000 *yen* in gold, and not only the interest on this sum, but also the surpluses of the yearly general accounts were added to it every year. But, as is clearly seen in the remarks made by Count Matsukata, Minister of Finance, when he resumed the portfolio in 1871, the best part of this fund had been transformed into advances and public bonds, and the specie left only amounted to 8,000,000 *yen*. This sum was insignificant as compared with the enormous sum of the aforesaid paper money issued. Moreover, the government was not in duty bound to pay specie out of this fund to bearers of paper moneys. The existence of this fund, therefore, can not traverse the inconvertibility of government paper money and New Paper Money.

"Kinsatsu" Exchange Loan Bonds

The "Kinsatsu" Exchange Loan was a public loan issued after March, 1873, for the readjustment and consolidation of the "Kinsatsu" (government paper money) and the New Paper Money, above described. Inasmuch as these two paper moneys had been issued as war loans in connection with the Restoration, the newly issued loan also naturally partook of the nature of a war loan.

As has been above stated, the government had changed the government paper moneys and the clan notes into inconvertible New Paper Money. The notification of May 28, 1869, however, remained unaltered. The government, therefore, turned out as many coins as it could; as a result, a great quantity of metallic currency found its way into circulation. On account of the yearly increase of national expenditures, and the unexpected deficit of revenue, it was impossible for the government to fulfil the promise of exchange, as contained in the above notification. But as the nonfulfilment of the public promise meant a great injury to the prestige of the government, the government endeavored to find some appropriate solution. Now the above notification contained a promise to pay 0.5 per cent interest per month (6 per cent per annum) to the holders of "Kinsatsu" after the expiration of 1872. The government decided to make good its promise by delivering, on application, government bonds to the holders of "Kinsatsu" (including New Paper Money), and allowing a fixed rate of interest every year. For this purpose, the "Kinsatsu" Exchange Loan Regulation was promulgated by Notification of the Dajokwan No. 121 on March 30, 1873, consisting of eleven articles, the main points of which notification may be summarized as follows:

(1) The bonds shall consist of (a) Registered Bonds and (b) Coupon Bonds (Art. I). A Registered Bond is a bond in which the name of the owner is written on the face of the bond, and also entered in a registry kept by the Department of Finance. Every time the bond is transferred from one person to another the name in the register as well as on the bond itself shall be altered (Art. II). A Coupon Bond has no name written in the register nor on the bond itself. Transfer shall be completed by mere delivery of the bond. At the end of the bond shall be attached a small coupon showing the amount of the interest annually to be paid to the holder of the bond (Art. III, Sec. 1).

(2) Both kinds of bonds shall be kept in circulation for the period of fifteen years from the date of issue (March 5). For

seven years[1] from the date of acquisition only interest shall be paid to the holder. After the lapse of the period, which, according to the revised computation, was the fourth year from the date of acquisition, certain bonds shall be drawn by lot and the principal thereof shall be repaid at any time the government may think fit. The holder shall not be allowed to refuse the repayment (Art. IV).

(3) If any holder of "Dajokwansatsu," "Mimbushosatsu" and New Paper Moneys wishes to have them exchanged for the above-mentioned government bonds in order to obtain the interest according to the above notification, he must report to the Paper Money Bureau of the Finance Department the amount of the paper money he has in his possession, in accordance with the proceedings provided for in the following section of this article. He shall receive either of the above bonds mentioned in the preceding article, according to the discretion of the Department (Art. IV, Sec. 1).

(4) The rate of interest on both bonds shall be 6 per cent per annum. Payment of interest shall be made at designated banks in Tokyo, Osaka, Yokohama, Nagasaki, Kobe, Kyoto, Niigata, Hakodate, etc., and the dates of interest payment shall be, on both bonds, twice every year, *i.e.*, from the 1st to the 15th of July and from the 1st to the 15th of December.

(5) In case any bonds are lost or stolen, the holder must report to the Paper Money Bureau that registered bonds or coupon bonds of such and such a kind—stating the number and amount—have been lost or stolen, as the case may be. Thereupon the Paper Money Bureau shall immediately make public notification to all the local government offices and banks of the fact, together with the kind, number and amount of the bonds lost or stolen, and shall, for the period of six months after the date of loss or theft, give public notice through newspapers, or other means of public notification, that the above bonds shall not be dealt in.

During the period of public notice neither principal nor in-

[1] Changed to three years, according to a revision made by Notification No. 264 in July, 1873.

terest shall be paid. When the bonds have not been discovered within the period of six months, the said Bureau shall make new bonds and deliver them to the applicants, but the interest that accrues during the period of public notice shall not be paid until the next date of payment subsequent to the delivery of the new bonds (Art. VIII).

When bonds have been washed away by floods, or burnt, the holders thereof shall report the fact to the Paper Money Bureau, according to the preceding provisions. If the fact of loss by flood or by fire be established, steps similar to the ones provided for in the previous section shall be taken. In case only a portion of bonds be burnt or otherwise destroyed so as to render their circulation impossible, the holders shall report the fact to the Paper Money Bureau, together with the remainder of the bonds and apply for the delivery of substitute bonds (Art. IX).

(6) This law shall at any time be supplemented or revised if the government thinks it necessary. Public notice of the supplement, revision, etc., shall be made without delay (Art. XI).

At the time when the government made the public promise to allow 6 per cent interest for the outstanding paper money after the expiration of 1872, the quotations of "Kinsatsu" were low; but subsequent recovery of its value caused it to circulate at a par with new coins, thus making 6 per cent interest on it appear too low. Simultaneously with the issue of "Kinsatsu" Exchange Bonds, therefore, the government promulgated a bank regulation, by which the issue of bank notes on the security of "Kinsatsu" Exchange Bonds was allowed.

The object of this regulation was to maintain the price of this bond by making the banks the purchasers of it. This expedient proved a success, inasmuch as it checked any remarkable depreciation of the bond, although there was not much demand for it among the people. By this device the government was able to withdraw government paper money to the amount of 2,230,000 *yen*, in round numbers. Not-

withstanding the withdrawal of the above money, however, the increase of the issue of the New Paper Money was such that in 1876 the total of all the paper moneys, including reserve paper money issued, surpassed 100,000,000 *yen*. As this enormously big sum naturally surpassed the demand in the market, it caused the value gradually to decline. It was, therefore, necessary for the government to start some plans to increase the issue of the "Kinsatsu" Exchange Bonds by guaranteeing their validity, and to regulate the circulation of the paper money. Moreover, people were then so ignorant of the nature of negotiable securities that they were afraid of accepting unregistered bonds. The government also found much difficulty in forming the estimates of principal and interest to be distributed to each district to meet the payment of unregistered bonds. The then Minister of Finance, fully convinced of the desirability of revising the law as it then stood, subjected the revised law to the deliberation of the "Dajokwan," on July 8, 1880. The revised regulation was issued by Notification No. 47 of October 27, of the same year, under the name of "Revised Regulation Concerning 'Kinsatsu' Exchange Loan," the chief points of the revision being as follows:

(1) The "Kinsatsu" Exchange Loan shall be issued for the exchange and redemption of the paper money issued by the government, and the principal and interest of the "Kinsatsu" Exchange Loan shall be paid in gold and silver coins (Art. I).

(2) The "Kinsatsu" Exchange Loan Bonds shall be registered bonds with coupons, and shall consist of 500 *yen*, 100 *yen*, and 50 *yen* respectively (Art. II).

(3) The paper money exchanged by "Kinsatsu" Exchange Loan Bonds shall be destroyed in the Finance Department, according to the regulation relating thereto.

(4) The principal of the "Kinsatsu" Exchange Loan Bonds shall remain unredeemed for three years from the date of delivery of the instruments. The redemption shall be completed in twelve years, beginning with 1871, and shall be made by

lot, according to the discretion of the government. The interest shall be 6 per cent per annum, and shall be paid twice a year, *i.e.*, in May and November, till the complete redemption of the principal (Art. V).

(5) Whoever wishes to have any paper money exchanged for "Kinsatsu" Exchange Loan Bonds must present an application for exchange, stating the kind of paper money, together with the amount thereof.

(6) Even after the promulgation of the present regulation, the "Kinsatsu" Exchange Loan Bonds shall be made after the form of the unregistered bonds with coupons under the former regulation. Unnecessary and contradictory expressions shall be struck out.

(7) The "Kinsatsu" Exchange Loan Bonds, both registered and unregistered, which were delivered prior to the promulgation of this regulation, shall be exchanged for revised ones (Art. XIV).

According to the revised regulation, therefore, the issue of "Kinsatsu" Exchange Loan Bonds was intended for the exchange and withdrawal of the government paper money, with the ultimate object of restoring their value by decreasing their excessive circulation. A comparison between the original and revised regulations easily reveals a great difference in the objects which the respective regulations were intended to attain. When the original regulation was promulgated, the government paper money did not surpass the demand, and so their prices were by no means low. The object of the original regulation, therefore, was not to decrease the circulation of paper money, but to afford an expedient for delivering interest to the holders of "Kinsatsu" Exchange Bonds, in accordance with the notification of 1869. According to the revised regulation, on the contrary, principal and interest of this loan were to be paid in gold and silver coins. If, therefore, a depreciation in the value of paper currency occurred, and it became beneficial for people to get the principal and interest in the form of specie, this would naturally be attended with a demand for the increased issue of

the exchange bonds. If the discrepancy between paper and specie ceased, then demand for exchange would again decrease. Thus by the natural operation of this regulation, the value of paper currency could be maintained.

Several modifications were subsequently made. In December, 1883, the issue of registered bonds was suspended. In November, 1888, when efforts were made to unify the treatment of all sorts of public debts, the "Kinsatsu" Exchange Loans fell under the provisions of the Consolidated Loans Regulation Notification No. 36, October, 1886, and Procedure with Respect to Consolidated Loans [1] with regard to principal refundment, interest payment, sale and other transfer, losses, extinguishment, defacement and destruction of bonds, etc., and these rules were put into force from January, 1889.

In short, "Kinsatsu" Exchange Loan Bonds were ordinarily issued for the benefit of the holders of government notes who wished to obtain interest on them. Though the exchange bonds consisted of registered and unregistered bonds, no demand was made for unregistered bonds before 1875, and between 1876 and 1879 no demand was made for either of them. The reason is not very far to seek. The market rate of interest then stood at more than 15 per cent, thus surpassing that of the exchange bonds by 9 per cent. Moreover, there was a general falling off of public loans, so much so that the so-called "Voluntarily-Capitalized Pension Bonds," which bore 8 per cent interest, could be bought below eighty *yen*. In 1880, just before the revision took place, there appeared some demand for this bond. On account of the revised regulation, the demand increased until 1883 in spite of the continued depreciation of the paper money. This was wholly due to the convertibility of the exchange bonds into metallic currency.

The issue of the bonds allotted to each year is estimated as follows:

[1] Finance Department Order No. 30, 1886.

Year of Issue	In Exchange for "Dajokwansatsu" and "Mimbu-shosatsu"	In Exchange for New Paper Money	Total
	Yen	*Yen*	*Yen*
1873	1,580,200	....	1,580,200
1874	633,350	....	633,350
1875	25,000	....	25,000
1880	....	3,002,650	3,002,650
1881	....	627,550	627,550
1882	....	427,950	427,950
1883	....	372,550	372,550
Total	2,238,550	4,430,700	6,669,250

Of this total, 5,219,550 *yen* was issued under the original regulation and 1,449,700 *yen* under the revised. According to the classes of applicants, banks and companies constituted the overwhelming majority of 67 per cent of the total, amounting to 4,465,650 *yen*. This was due to the fact that the object of the National Bank Regulation and the line of policy taken by the government with regard to the issue of this loan had duly been put into execution. Besides, there were unregistered "Kinsatsu" Exchange Loan Bonds amounting to 7,929,900 *yen*, which were issued in 1884 and 1886 in accordance with the revised regulation of 1883.

Conclusion

To sum up, there can be little doubt that "Dajokwansatsu" (48,000,000 *yen*) and "Mimbushosatsu" (45,000,000 *yen*) should be placed in the category of war and armament loans, inasmuch as they were inconvertible paper money issued as extraordinary sources of war revenue at the Restoration. A close scrutiny of their appropriations, it is true, will show us that they were also used for other purposes than war and armament. But in view of the fact that no other resources for the suppression of the disturbances existed at the time of the Restoration, we consider it quite proper to put them into this category of war and armament loans. On the contrary, Exchequer Exchange Bonds (68,000,000 *yen*) and Colonial

Exchange Bonds (25,000,000 *yen*) should, in view either of the apparent aims for which they were issued or of their actual appropriations, be placed outside of war and armament loans. New Paper Money should also be called war and armament loans. It is true that this paper money was not used entirely in exchange for, and in adjustment of war and armament loans, since it was used to exchange and adjust 61,367,680 *yen* of the aforesaid four kinds of government notes (the total of which was 64,800,000 *yen*) and 22,908,434 *yen* of Old Clan Paper Money. But we must not lose sight of the fact that the majority of it was appropriated in exchange for and in adjustment of "Dajokwansatsu" and "Mimbushosatsu," which were, as was shown above, war and armament loans. Moreover, Old Clan Paper Money was nothing but war loans of the clans, so the New Paper Money issued in exchange for and for the adjustment of them can justly be looked upon as war and armament loans on account of the Meiji Restoration. In addition to it, the amount of issue of New Paper Money was over 84,276,114 *yen*, which was the sum issued in exchange for the above-mentioned notes. In 1876, it amounted to 100,521,516 *yen* and in 1878, as the result of increased issue in connection with the Southwestern Rebellion,[1] it reached the maximum figure of 139,418,571 *yen*. This surplus amount was appropriated for the replenishment of the Treasury, which was then suffering a heavy strain on account of local disturbances, the Formosan and Korean affairs, and expansion of military and naval armament. Such being the case, we find no impropriety in calling New Paper Money by the name of war and armament loan. Lastly, the "Kinsatsu" Exchange Loan Bonds undoubtedly partake of the nature of war and armament loans because, of the 6,669,250 *yen* which was the total sum of issue, 2,238,550 *yen* was issued in exchange for government notes, and 4,430,700 *yen* in exchange for New Paper Money.

The following table details all the war and armament loans from the Restoration (1868) to the Satsuma Rebellion (1877):

[1] Satsuma Rebellion.

LOANS FROM RESTORATION TO SATSUMA REBELLION[1]

Calendar Year	Dajokwan-satsu	Mimbusho-satsu	New Paper Money	Kinsatsu Exchange Loan	Total
	Yen	*Yen*	*Yen*	*Yen*	*Yen*
1868.....	24,037,386	....	....	....	24,037,386
1869.....	48,000,000	2,090,867	....	....	50,090,867
1870.....	48,000,000	7,500,000	....	....	55,500,000
1871.....	48,000,000	7,500,000	....	....	55,500,000
1872.....	43,251,058	7,474,833	8,374,107	....	58,099,998
1873.....	36,863,722	7,247,824	25,535,325	1,580,200	71,227,071
1874.....	26,573,507	6,377,646	57,208,170	2,213,550	92,372,873
1875.....	5,147,913	2,337,886	91,584,067	2,238,550	101,308,419
1876.....	3,095,921	1,540,000	100,521,516	2,105,950	107,263,387
1877.....	3,070,145	1,519,686	101,207,259	2,105,950	107,903,040

The war and armament loans issued during the period from the Restoration to the Satsuma Rebellion were confined to the above-mentioned paper moneys and the "Kinsatsu" Exchange Loans. If we take public loans at large into consideration, there were in addition the 9 per cent Foreign Loan amounting to 4,880,000 *yen*, and the loans for the reform of political institutions (including 7 per cent Foreign Loan, Voluntarily-Capitalized Pension Bonds, and Hereditary Pension Bonds). This 9 per cent Foreign Loan was the first loan raised by public subscription by this country. It was raised in London in April, 1870, and the proceeds were appropriated to public works expenditures, such as the construction of the railways between Tokyo and Yokohama and between Kobe and Osaka.

[1] Based on the *Financial History of the Meiji Era* and special investigation. What is called New Paper Money includes Exchequer Exchange Notes, Colonial Exchange Notes, exchanged Old Clan Notes and Reserve Paper Money. As the figures of these notes can not be separated from those of New Paper Money, they have been inserted as they stood. "Kinsatsu" Exchange Loan Bonds were issued in great amount after 1880, so the above figures do not show the amount of maximum issue.

CHAPTER III

FROM THE SATSUMA REBELLION TO THE SINO-JAPANESE WAR

Friction among the Cabinet members over the question of Korean conquest, added to the local disturbances, made the already confused state of things worse confounded, and the result was the famous Satsuma Rebellion of 1877. In this rebellion, Saigo Takamori, one of the veteran statesmen of the Restoration, who enjoyed a wide popularity and was well versed in military tactics, acted as the head of the insurrection. Kumamoto, Fukuoka, Saga and other places in Kyushu, not to speak of Satsuma, his birthplace, responded to his call. They resisted the Imperial forces until they were destroyed to the last man. The suppression of the rebels, therefore, involved much time and a great array of forces. The number of soldiers who fought for the government was above 66,000, and the line of battle extended over 20 or 30 *ri*. More than 200 days had passed before the rebels were completely subdued by the defeat at Shiroyama. The law of requisition at the time left a great deal to be desired. Moreover, as the scene of action lay in mountainous districts the roads were so bad that resort could not be had to ships and wagons. Commissariat and transportation, therefore, had to be left in the hands of coolies, whose pay amounted to no small sum. Increase of police force in the provinces, punishment of rebels, postbellum relief of the distressed, and the reward afforded to the soldiers engaged in the campaign necessitated an enormous outlay from the Treasury.

Thus the estimate of the war expenses figured 42,000,000 *yen*, which was, of course, too large a sum to be defrayed out of the ordinary revenue. To resort to an ordinary loan would have been impossible, except at an enormous rate of interest. Increase of the amount of taxes, however, would have estranged

the confidence of the people, as an ordinance concerning the curtailment of taxes had been issued not long before. Thereupon, in 1877 and 1878, the government borrowed bank notes amounting to 15,000,000 *yen* from the Fifteenth National Bank to defray a part of the expenses. This is what is called "the Conquest Loan." Not only was this expedient insufficient to cover all of the conquest expenses, but the bank notes could not be circulated in the battle zones. The government had no other alternative than to issue Reserve Paper Money to the amount of 27,000,000 *yen*, which it did in February, 1877, by Decree No. 87. Thus the loans from the Fifteenth National Bank (15,000,000 *yen*), the increased issue of New Paper Money (27,000,000 *yen*), and contributions (10,000 *yen*) were sufficient to cover the total of the war expenses, which, according to final accounts made in October, 1878, figured at 41,567,726 *yen*.

There were two problems after the war which needed attention, *i.e.*, the adjustment of paper moneys, and the increase of armament. The adjustment of paper moneys was chiefly effected by the establishment of the Bank of Japan, 1882, and the enforcement of the Bank Note Regulation, 1884. This problem had no direct relation with war, but the loan of the paper moneys redemption fund from the Bank of Japan, 1888, must be regarded as an auxiliary consequence of the war.

The extension of armament was effected both in the navy and in the army. Expenses for the increase of naval armament were defrayed out of the Navy Loan, floated by the Navy Loan Regulation, 1886. Expenses for the military armament were paid by the Bank of Japan out of the Temporary Loan, which was effected in accordance with an agreement between the Cabinet and the Bank of Japan in 1886.

There were two Korean affairs, viz., one in 1882 and the other in 1884 and 1885, which involved 1,425,375 *yen* and 139,088 *yen*, respectively. These sums were covered by national reserve funds and ordinary revenue, and had nothing to do with public loans.

In short, the war and armament loans from the Satsuma

Rebellion to the Sino-Japanese War consisted of the Loan for the Suppression of the Rebellion, the issue of Reserve Paper Money, the Loan of the Paper Money Redemption Fund, the Navy Loan, and the Temporary Loan for the Army, which will be treated successively in the following sections.

Loan for the Suppression of the Rebellion

To cover the expenses of the Satsuma Rebellion, the government contracted a loan from the Fifteenth National Bank by a written agreement made by the National Loan Bureau of the Finance Department. The loan extended over a term of twenty years; and 15,000,000 *yen* out of the bank notes, which the same bank issued with the government's permission, was to be appropriated for this purpose. The interest was fixed at 5 per cent per annum.

The Fifteenth National Bank had been established by a number of peers with a capital of 17,826,000 *yen*, which consisted of public bonds. The bank had received the delivery of the bank notes which it issued on the security of the deposited public bonds. It had not been easy for the bank to make use of this prodigious amount of bank notes. This government loan on account of the Satsuma Rebellion, therefore, just suited the needs of the Fifteenth National Bank. The interest of the loan, however, was felt to be too low, as the market rate of interest at that time exceeded 10 per cent per annum.

In accordance with the above-mentioned agreement, the said bank paid 9,486,000 *yen* and 5,514,000 *yen* during 1877 and 1878, respectively. After the completion of the payment of the loan, which was made in forty-two instalments, the said bank twice tendered a petition to the government for an increase of the rate of interest, once in October, 1879, and again in January, 1880, to which, however, the government turned a deaf ear.

The restoration of peace after the suppression of the Rebellion brought out unmistakably the evils of the overissue of inconvertible notes. Thus, the depreciation of paper cur-

rency, exportation of metallic currency, unfavorable balance of trade, rise in prices and in interest rates, and the depreciation of public bonds ensued in succession. This storm and stress of the economic world compelled the government to take various remedial measures.

Now the said bank could issue bank notes beyond the limit provided for in the National Bank Regulations, though the reserve bonds decreased a great deal on account of the aforesaid loan made to the government.

Such an anomaly, it is true, was quite unavoidable in time of disturbances, for alleviating the financial stress of the government. But when peace was restored, and when the adjustment of paper moneys was considered, the overissue was found to be a serious difficulty in the way of financial adjustment. After the unification of the paper moneys, which had been effected by decree No. 15, 1883, the government, in July of the same year, modified the previous agreement by issuing an order in accordance with which the government repaid 5,000,000 *yen* out of the total sum of the loan; thus enabling the said bank to redeem 2,400,000 *yen*, which had been the amount in excess of the legal limit, and also enabling the bank to increase the reserve fund so as to comply with the amount provided for in the National Bank Regulation. Having once deprived the bank of the privilege of overissue, the government, on its part, had no reason to borrow money from the bank at the low interest of 5 per cent. So with the repayment of 5,000,000 *yen*, the government revised the rate of interest on the remaining sum to 7.5 per cent.

On July 10, 1892, the Fifteenth National Bank requested the government to repay the loan by instalments, *i.e.*, 2,000,000 *yen* in November, 1895, and May and November, 1896, and 4,000,000 *yen* in May, 1897, when the term of the loan expired. The reason assigned for this mode of payment was that if the loan were repaid at a single time, at the expiration of the term, it would greatly affect the money market. This mode of redemption found high favor with the government, as it was conducive to the adjustment of its finance. On April

22, 1896, this request was granted, and it was duly executed by the government. Of 4,000,000 *yen*, to be repaid on May 20, 1897, however, 2,000,000 *yen* was paid in cash and the remaining 2,000,000 *yen* by delivery of Consolidated Public Loan Bonds, in accordance with a subsequent request of the Fifteenth National Bank made in July, 1896.

Reserve Paper Money and Temporary Loan for the Redemption of Paper Money

Reserve paper money was that which had been procured from Germany in 1870 to be issued in exchange for damaged paper currency. As the sum exchanged was very big, amounting to 10,000 *yen* a month, the authorities decided in 1877 to manufacture the money within the country, and thus 40,441,524 *yen* was manufactured at home. Reserve paper money was issued not only in exchange for damaged paper money, but also to save the Treasury from financial crises. After 1878 the issue of this paper money for purposes of equalizing the revenue and the expenditure in the general account became quite common.

In order to meet the expenses of the Satsuma Rebellion, the government borrowed bank notes from the Fifteenth National Bank. But when the Fifth National Bank in Kagoshima fell into the hands of the insurgents, and its bank notes were put in circulation in the field of combat, bank notes generally lost their credit in the neighborhood, and their circulation was greatly impeded. Hereupon, the government declared its intention of issuing reserve paper money by Notification No. 87 of December, 1877, and in the following year there was an issue of no less than 27,000,000 *yen*. The war expenses were successfully met by this expedient, but it made the more necessary a postbellum readjustment paper.

At first the New Paper Money was issued to readjust government paper moneys, and the latter were, in 1874, almost superseded by the former. The issue of New Paper Money, however, was not restricted to the extent of this primary object; and it went on increasing until at the end of 1876 it reached

100,500,000 *yen*. To this already enormous sum was further added the reserve paper money amounting to 27,000,000 *yen* issued in connection with the Satsuma Rebellion, the circulation of which at the end of 1878 stood at 139,418,571 *yen*. Moreover, the national bank notes which had reached the total of only 1,744,000 *yen* at the close of 1876 rose to 26,279,006 *yen* at the end of 1878 on account of the credit notes of the Fifteenth National Bank during 1877 and 1878. Thus the grand total of paper money rose to the unprecedented sum of 165,697,598 *yen*.

As a result of such an enormous inflation of paper currency, the fall of its value could not be averted, and its value against silver coins continued to go down from 1877, the depreciation reaching its maximum in 1881. Prices and interest rose rapidly and our economic affairs were on the brink of a great panic. Realizing that some expedient must be resorted to, the government exerted itself to the utmost to withdraw and redeem paper moneys.

For this purpose the government revised by Proclamation No. 40, September 27, 1880, the *Sake* Manufacture Tax Regulation, doubling the rate, and appropriating the increased receipts. Also for this purpose, the government by Proclamation No. 48, November 5, 1880, extended the scope of local finance, thus relieving the national Treasury. At the same time it carried out the curtailment of department expenditures. To attain the same object, the government sold several factories built by itself, and abolished the loaning of the reserve fund. Thus every effort was made to increase the fund for the redemption of paper money. Count Matsukata, especially, the then Minister of Finance, not only withdrew paper currency, but also accumulated metal in preparation for the adoption of the conversion system. By Proclamation No. 32, June 27, 1882, the Bank of Japan Regulation was enacted, and on October 10 of the same year the Bank of Japan commenced its business. As the difference between silver and paper money was still considerable, the government forbade the issue of convertible bank notes by Article 14 of the same regulation.

The efforts of the government to redeem paper money and accumulate metallic currency raised the value of paper currency, and the discrepancy between them well-nigh disappeared. By Proclamation No. 18, May 18, 1884, the Convertible Bank Notes Regulation was enacted, and on May 9, 1885, the Bank of Japan issued the first convertible bank notes. Further, by Proclamation No. 14, June 6, 1885, it was provided that the paper money issued by the government should be exchanged for silver coins from January, 1886, and that the converted paper money should be withdrawn from circulation. At the end of June, 1888, the paper moneys in circulation decreased to only a little above 49,700,158 *yen*. This was a good opportunity for the government to lay the foundation for our monetary system, and it revised the Convertible Bank Notes Regulation by Imperial Ordinance No. 57, August 1, 1888. The issue of convertible notes on security reserve was limited to 70,000,000 *yen*, of which 20,000,000 *yen* was to be borrowed by the government, at the rate of 2 per cent per annum, for the redemption of government paper moneys. Its carrying into effect was postponed to some future date. This gave rise to temporary loans for the redemption of paper moneys. By Law No. 34, May 16, 1890, the government revised Article 2 of the Convertible Bank Notes Regulation, and the issue limit of convertible notes on documentary reserve was increased from 70,000,000 *yen* to 85,000,000 *yen*. Of this sum, 22,000,000 *yen* was to be loaned to the government without interest for the redemption of government paper money. Imperial Ordinance No. 59, August, 1888, could thus be carried into effect. The Finance Minister borrowed 22,000,000 *yen* from the Bank of Japan in the fiscal year 1890, which, together with the Paper Money Redemption Reserve amounting to 10,000,000 *yen*, was transferred to the Paper Money Exchange Fund. This fund was appropriated for the exchange and redemption of government paper money upwards of one *yen*.

With regard to the repayment of this temporary loan it was laid down that it should remain unredeemed for six years beginning with September 1, 1890, and was gradually to be paid

off not later than 1912, at the convenience of the government. This sum has remained unchanged up to date in the statistics of our national indebtedness.

Navy Loan

Our navy strength at the Restoration amounted to only a little above 10,000 tons. It consisted of warships collected from Satsuma, Choshu, Hizen and other clans, and of those transferred from the Shogun. Following the increase of army strength in 1872, the expansion of our naval force was carried out on a small scale, and new warships were constructed. As military activities of the period were chiefly limited to internal affairs, the authorities were not confronted with a need of naval expansion. But frequent disturbances in Korea after the Satsuma Rebellion made them conscious of the necessity of naval preparations. In 1882, the naval authorities established a program for building new warships. This program was approved by the Cabinet council, and it was decided that 26,640,000 *yen* should be disbursed as naval expansion expenditure, during the period from 1883 to 1890. The amount disbursed to the end of 1885 amounted to 9,903,491 *yen*.

It was attended with a good result. Inasmuch as the ordinary annual revenue fell short of the expenditures on various works and undertakings, which required immediate attention, it was quite out of the question for the government to rely upon the ordinary sources of revenue for armament expansion. A policy was, therefore, adopted to raise a domestic loan for naval expansion to the amount of 16,735,608 *yen*, the remaining sum to be paid according to the prearranged program. By Imperial Ordinance No. 47, June 12, 1886, it was proposed to raise an 8 per cent public loan amounting to 17,000,000 *yen*. This was the so-called "Navy Loan," which was the first armament loan in this country.

The provisions of the ordinance were concerned with the amount of issue, the rate of interest, the term of redemption, the date of interest payment and a few other conditions, all other particulars not provided for in the regulation being re-

ferred to the regulation concerning the Nakasendo Railway Bonds.

Before the flotation of the Navy Loan was completed, a regulation concerning the Consolidated Public Loan in October of the same year was adopted with the object of unifying the management of public debts. A part of Navy Loan Bonds Regulation was modified by Imperial Ordinance No. 1, February, 1887, by which the unregistered bond was made the standard, being changeable into the registered bond, upon request of creditors, all other particulars not provided for in the regulation being referred to the Consolidated Loans Regulation. The Navy Loan was raised by par subscription and premium issue during the period from June, 1886, to March, 1889, in four issues. Judging from the circumstances of each flotation, the adjustment of paper currency had already been established, organs of monetary circulation had been furnished, and the consolidation of public liabilities had already begun.

The monetary circulation became, therefore, very smooth, and interest fell, which accounted for the high market price of government securities.

The Navy Loan was raised in four issues during the period extending from 1896 to 1899. The first issue was made in June, 1886, the second in March, 1887, the third in February, 1888, and the fourth in March, 1889. The total sum of flotation by these four issues amounted to 17,000,000 *yen*. Notwithstanding the fact that the minimum price was fixed at par, every issue was attended with great success. The total sum subscribed amounted to 33,968,800 *yen*, nearly double the sum invited. The government, therefore, allotted the subscriptions from the maximum price, 110 *yen*, down to 100 *yen*, and the sum actually received by the national Treasury was more than 17,244,153 *yen*. There was an increased receipt amounting to 244,135 *yen*, the sum invited being 17,000,000 *yen*, which was wholly due to the premium issue. Its average price was calculated at 101,436 *yen*.

The general facts concerning each flotation are summarized and tabulated as follows:

NAVY LOAN[1]

Items	First Issue	Second Issue	Third Issue	Fourth Issue	Total or Average
	Yen	*Yen*	*Yen*	*Yen*	*Yen*
Total amount of subscription	16,642,300	8,447,700	3,845,500	5,033,300	33,968,800
Minimum price of flotation	100	100	100	100	100
Amount of flotation	5,000,000	6,000,000	2,000,000	4,000,000	17,000,000
Minimum price of subscription	670,700	2,653,800	2,550,200	709,200	6,583,900
Number of premium subscriptions	15,971,600	5,793,900	1,295,300	4,324,100	27,384,900
Net proceeds	5,187,832	6,048,715	2,004,210	4,003,395	17,244,153
Excess of subscription	11,642,300	2,447,700	1,845,500	1,033,300	16,968,800
Maximum price of subscription	110	105	102	101	104
Maximum price of subscription at the main office	110	105	102	101	104
Minimum price of premium subscription	100	100	100	100	100
Average price of subscription	102	100	100	100	101
Average price of allotments	103	100	100	100	101

TEMPORARY LOAN FOR ARMY EXPENDITURES

Army expenditures, except in cases of war, were defrayed out of the ordinary annual revenue. By the experiences which the government obtained in the Satsuma Rebellion, the necessity of arms and ammunition improvement was brought home to the minds of the authorities. They decided that, apart from the ordinary army expenditure, an annual sum of 188,300 *yen* should be disbursed for the period of fifteen years beginning with 1878, the sole object having been the manufacture of new style rifles for army use and the manufacture of ammunition. The progress along this line was carefully attended to, and it was not infrequent that the allotted amount for the following financial year was employed in order to meet the demands of the occasion. In the fiscal years of

[1] Based on the *Financial History of the Meiji Era*. Figures under one *yen* have been omitted.

1885 and 1886 in order to speedily complete the work by employing the allotments for the several years to come, it was decided that a temporary loan should be obtained from the Bank of Japan, and that the loan should be repaid out of the annual allotments for the years to come. This was the so-called Temporary Loan for the Expenditure upon New Style Rifles for Army Use, and upon Ammunition Manufacture. As soon as this decision was made, the Finance Minister delivered to the Bank of Japan a written agreement with regard to the Temporary Loan on May 26, 1886. According to this agreement the amount of the loan was 1,337,298 *yen*, which could be borrowed from the bank at any time before March 31, 1888, with interest at 5.5 per cent. The interest was to accrue from the day the loan was made to the day previous to the redemption. The amount to be borrowed in each fiscal year was fixed beforehand, but actually it was more or less modified to suit the convenience of the military department. The entire loan was completed on December 15, 1888, in twenty-one instalments in all. The following table shows the details of the amount borrowed in each fiscal year:

TEMPORARY LOAN FOR ARMY EXPENDITURES

Fiscal Year	Number of Loans	Amount of Loans	Amount Converted Out of the Amount of Loans[a]	Net Amount of Loans
		Yen	*Yen*	*Yen*
1885.....	1	330,000	....	330,000
1886.....	10	846,999	234,458	612,541
1887.....	7	995,940	655,940	340,000
1888.....	2	859,691	804,934	54,757
1889.....	1	668,649	668,649	....
Total....	21	3,701,281	2,363,982	1,337,298

[a] Converted for the purpose of making the final account of the unredeemed sum of each fiscal year.

For the redemption of the said Temporary Loan, a sum of 191,042.656 *yen* was paid each fiscal year, and thus the whole debt was paid off during the period ranging from 1886 to 1893.

CONCLUSION

The above is a summary of the war and armament loans floated by our Financial Department during the period from the Satsuma Rebellion to the Sino-Japanese War.

The war and armament loans during this period, therefore, include the Loan for the Suppression of the Rebellion, increased issue of New Paper Money, Navy Loan, Temporary Loan for Expenditures on New Style Rifles for Army Use and for Ammunition Manufacture, and Temporary Loan for the Redemption of Paper Money. The following tables show these under the main division of war loans and armament loans:

I.—AMOUNT OF WAR LOANS

Year	Temporary Loan for the Suppression of the Rebellion	New Paper Money	Temporary Loan for the Withdrawal of Paper Money	Total
	Yen	*Yen*	*Yen*	*Yen*
1877.....	9,486,000	....	....	9,486,000
1878.....	5,514,000	27,000,000	....	32,514,000
1890.....	....	....	22,000,000	22,000,000
Total	15,000,000	27,000,000	22,000,000	64,000,000

II.—AMOUNT OF ARMAMENT LOANS[1]

Year	Navy Loan	Temporary Loan for the Expenditure on New Style Rifle and Ammunition	Total
	Yen	*Yen*	*Yen*
1885.....	....	330,000	330,000
1886.....	5,000,000	612,541	5,612,541
1887.....	6,000,000	340,000	6,340,000
1888.....	2,000,000	54,757	2,054,757
1889.....	4,000,000	....	4,000,000
Total....	17,000,000	1,337,298	18,337,298

Although the above loans were adequate to meet all the war and armament expenditures during and after the Satsuma Rebellion, the public loans generally floated during the same period were not restricted to the above. In 1878 a loan for the

[1] Based on *Financial History of Meiji Era.*

encouragement of industries amounting to 12,500,000 *yen* was issued. In 1884 and 1885, there was the issue of the Nakasendo Railway Loan amounting to 20,000,000 *yen*. In 1884, 1885 and 1886 there was the issue of a revised unregistered Kinsatsu Exchange Loan amounting to 7,939,900 *yen*. In 1886 a railway expenditure replenishment loan amounting to 2,000,000 *yen* was floated. Thus the national loans of the Empire, together with the paper money, greatly increased both in their kinds and amounts. The government, therefore, carried on the readjustment of paper money, established a conversion system and improved the monetary circulation. When the rate of interest had remarkably fallen by these expedients, the government attempted an adjustment of various public loans after 1886. This was carried through by Imperial Ordinance No. 66, October, 1886.[1] This public loan was issued to convert the domestic loans upward of 6 per cent interest (such as "Kinsatsu," Nakasendo Railway Bonds, "Kinsatsu" Exchange Bonds and Loans for the Encouragement of Industries, etc., amounting to 175,233,340 *yen*) into a loan with not higher than 5 per cent interest, or to redeem the same with cash. This loan was issued during the period 1887-1897, the total sum amounting to 175,000,000 *yen*. Thus the program of the consolidation of national loans was steadily carried on. In 1890, the Imperial constitution was put into operation. At the end of the same year, the Imperial Diet was convened and the various financial adjustments were carried on. In accordance with Law No. 4, 1892,[2] a 5 per cent railway loan was issued beginning with 1893, the object being the extension of government railway lines during the coming twelve years, with the sum of 60,000,000 *yen*.

The above is a summary of the public debts of Japan prior to the Sino-Japanese War. We have added the summary before we proceed to the discussion of the war and armament loans on account of the Sino-Japanese War, in order to show the condition of our state liabilities when Japan and China came into conflict.

[1] Consolidated Loans Regulation.
[2] Construction of Railways Loan Regulation.

CHAPTER IV

FROM THE SINO-JAPANESE WAR TO THE RUSSO-JAPANESE WAR

Our declaration of war against China was proclaimed on August 1, 1894. The Sino-Japanese War, however, commenced in June, 1894, when Japanese and Chinese troops were both dispatched to Korea. The twenty-two months, from June 1, 1894, to March 31, 1896, formed one fiscal year for the war expenses. The revenue and the expenditure during this period were estimated at 250,000,000 *yen*, but the actual output did not exceed 200,475,508 *yen*. Of this figure, 164,520,-371 *yen* was disbursed by the Military Department, while 35,955,137 *yen* was disbursed by the Navy Department.

The actual receipt of revenue to meet this expenditure amounted to 225,230,127 *yen*, and thus there was a surplus of 24,754,619 *yen*. This surplus sum was transferred to the general account for the fiscal year 1896, together with the fund for meeting the miscellaneous needs concerning the war, which were yet to be met. Besides, the extraordinary expenditure connected with the war in the general account amounted to 32,134,262 *yen*.

At the commencement of the war, however, it was impossible for the government to foresee the duration and the expenses of the war, and the war fund was not fixed from the beginning. The government, therefore, met the situation by the outlay of the surplus fund of the national Treasury, by the diversion of the special accounts funds, by loans from the Bank of Japan, and by the issue of military bills. These were finally readjusted by public loans, by the indemnity fund and out of other resources.

When the Korean affair occurred, the government resorted to the second reserve fund of the general account of the fiscal year 1894–1895, which, however, was not adequate to meet

the needs of the situation. Thereupon, the government obtained the Imperial sanction to employ the surplus fund of the national Treasury. The Korean affair gave rise to the conflict between Japan and China, and to the dispatch of our troops, and finally to the declaration of war in August, 1894. The need for the war expenses became more and more imminent.

By Imperial Ordinance No. 143, August 13, 1894, the government was authorized "to transfer and use the fund belonging to the special account, to make temporary loans, and to float public loans in order to meet the expenditures of the Korean affair." By Imperial Ordinance No. 144, August 15, 1894 (War Loan Regulation) the flotation of loans to the amount of 50,000,000 *yen* was ordered. In October, 1894, by Law No. 25, the flotation of loans to the amount of 100,000,000 *yen* was proclaimed with the consent of the seventh special session of the Diet convened at Hiroshima. In the eighth session of the Imperial Diet a draft relating to the flotation of public loans amounting to 100,000,000 *yen* met its approval, and was promulgated on March 2, 1895. When the flotation of public loans to the amount of 100,000,000 *yen* had been approved at the seventh special session of the Diet, it was decided that 20,000,000 *yen*, which was the remainder of the sum to be floated in accordance with Imperial Ordinance No. 144, 1895, should not be floated.

Therefore, the total sum which the government obtained in the form of public loans or of temporary loans was 230,000,000 *yen*. Of this sum, the war loans actually floated and issued to the end of March, 1896, amounted to 119,000,000 *yen* in round numbers. At the end of the fiscal year 1898 it amounted to 124,835,750 *yen*.

Thus, the public loan actually floated was smaller than the estimated sum, and this can be accounted for by the fact that a readjustment was accomplished with the indemnity fund and other revenues, which redeemed the sums diverted from the special accounts funds, loans from the Bank of Japan, and military bills and the like. Diversion from the special ac-

counts funds constantly took place during the war beginning with October, 1894, the sum diverted amounting to 26,710,462 *yen* at the end of March, 1896. Loans from the Bank of Japan were constantly incurred during the war, and at the end of March, 1896, these equalled 37,900,000 *yen*. Military bills were issued to the amount of 3,780,000 *yen* in March, 1895, but subsequent to July of the same year, these were gradually redeemed, and by the end of March, 1896, had been reduced to 103 *yen*.

The sum transferred from the indemnity fund to the extraordinary war expenditures special account, for purposes of extinguishing the above temporary loans before the final account of that fiscal year, amounted to 78,950,000 *yen* in round numbers. With the addition of the voluntary contribution made by the people for war expenses and for the relief of soldiers, this special account formed the war fund, out of which the entire sum of the extraordinary war expenses was defrayed.

In short, the total expenditures of the Sino-Japanese War according to the final account were 200,475,508 *yen*, and the war fund for meeting this sum was raised by the following methods:

	Yen
Surplus fund of the national Treasury in the fiscal year 1893	23,439,086
Fund obtained by public loans	116,804,926
Voluntary contribution for war fund	160,800
Voluntary contribution for relief fund	2,788,740
Miscellaneous income	1,519,305
Income in the occupied territories	624,425
Income in Formosa and Pescadores Islands	935,679
Transferred from the special (indemnity) fund	78,957,164
Total	225,230,119

Thus, there was a surplus of 24,754,619 *yen* transferred to the general account in accordance with Law No. 10, 1896, which was employed for miscellaneous expenses in connection with the war.

Of all the postbellum undertakings the expansion of armament occupied the most conspicuous position, but its resources were sought not in the public loans, but mostly in the indemnity fund.

The plan of the expansion of armament for the coming ten years was decided in 1896, but subsequently this plan was further expanded several times. The actual total of the expenditures till 1905 was 318,137,458 *yen*, of which 106,487,336 *yen* was appropriated to the expansion of the army, and 211,650,116 *yen* to that of the navy. The resources, in *yen*, for this sum were chiefly the indemnity fund, but public loans and ordinary revenue were also resorted to.

Defrayed out of indemnity fund	196,058,025
" " " public loans	77,168,702
" " " ordinary revenue	44,910,731
Total	318,137,458

With regard first to disbursements out of the indemnity fund, it was provided by Law No. 6, March, 1896,[1] that bank notes should be borrowed from the Bank of Japan on deposit of gold bullion which was still abroad. The amount of these loans figured up to 99,844,700 *yen* during the years 1896, 1897, 1898. These loans were called temporary loans on deposit of the indemnity money. Secondly, with regard to the disbursement out of public loans it was stipulated by Law No. 59, March, 1896,[2] that a part of the public undertakings loan should be appropriated to the expansion of armament.

For several succeeding years postbellum arrangements were duly carried, including the establishment of the gold-standard system, the expansion of railways and telephone services, the encouragement of industries and education, the government iron enterprise and the governmental monopolies, in addition to armament expansion; until, in 1900, occurred the Boxer Uprising in China, which endangered to no small extent the life and property of all the alien residents in China. After consultation with England and other powers, our government decided to send the Fifth Division for its suppression. This was what is called the North China affair.

The expenditures in connection with the North China affair amounted to 22,815,091 *yen* in the fiscal year 1900, and

[1] Special Account Law with regard to indemnity.
[2] Regulation with regard to public undertakings loan.

12,828,710 *yen* in 1901, totaling 35,243,801 *yen*. To meet this outlay the government in the first place resorted to 2,000,000 *yen* from the reserve fund of the general account. Then, by the Imperial Urgency Ordinance No. 277, June, 1900, it resorted to 20,000,000 *yen* from the replenishment fund for warships and torpedo boats, which had been specially set apart out of the indemnity. The uprising was not easily suppressed, and the expenses incurred in dispatching troops and warships showed rapidly increasing figures. In the fiscal year 1901, it was incumbent upon the government not only to seek some sources of revenue for the above-mentioned 12,800,000 *yen* in round numbers, but also in order that the 20,000,000 *yen* which had been transferred from the aforesaid fund should be speedily replenished. But the conditions of the market, both domestic and foreign, were such that the raising of public loans was quite out of the question. Thereupon, the government could find no alternative but the increase of taxes.

In the fifteenth session of the Diet, 1901, laws were passed for the increase of the *sake* tax, for the creation of beer and sugar taxes, for the raising of the rate of monopoly prices for leaf-tobacco, and for the increase of customs duties on alcohol, oil, and tobacco. The increase in revenue resulting from these new taxes and increased rates were estimated at 21,440,758 *yen*. It was planned that, after the war expenses had been met, the remainder should be appropriated to the replenishment of the funds, and then to the public undertakings expenditures, which were to be covered out of public loans. Contrary to the expectations, however, the actual receipt in the fiscal year 1901 was only 4,328,925 *yen*, and the actual receipt in 1902 was no more than 16,076,128 *yen*. As it was clear that the increase was inadequate even to cover the expenses of war, the government contracted temporary loans amounting to 15,000,000 *yen* from the Bank of Japan beginning with October, 1901. These were called Temporary Loans for Chinese Affair Expenditures.

To sum up, the public loans with regard to war and armament during and after the Sino-Japanese War consisted of

military loans, a part of the public undertakings loans, and various kinds of temporary loans.

Military Loans

In accordance with the regulations promulgated during 1894 and 1895, a military loan not exceeding the total amount of 230,000,000 *yen* was authorized to be floated to meet the needs of the military outlays in connection with the Korean and Chinese affairs. The nominal amount floated or issued was 125,000,000 *yen* in round numbers (124,920,750 *yen*). Inasmuch as the regulations, the methods and dates of issue were different one from another, we deem it proper and convenient to divide it into the following three issues:

(1) The flotation of the first military loan was authorized by Imperial Urgency Ordinance No. 143 and Imperial Ordinance No. 144. These provided that the amount should not exceed 50,000,000 *yen*, that the interest should not exceed 6 per cent, and that the repayment should be within fifty years after remaining unredeemed for five years. Accordingly, when it was actually floated by Notification No. 32 of the Finance Department, on August 17, 1904, the amount was fixed at 30,000,000 *yen*, with interest at 5 per cent, and the methods of both par subscription and premium issue were resorted to. Payment in seven instalments was authorized for the convenience of subscribers, and the payment was to be fully completed by June 30, 1895. Now to float a loan figuring up to 30,000,000 *yen* at one time was a thing quite unprecedented in our history. It was quite natural that some persons should have entertained a doubt as to the success of the flotation. The government, therefore, kept this point ever in view, and did its best to encourage subscriptions by sending private directions to the local authorities and by giving instructions to the bankers. It was rather a surprise to everybody to find that the response amounted to 77,002,650 *yen*, exceeding the sum invited by 47,002,650 *yen*. Thereupon, the government accepted 11,627,850 *yen*, applied for at a premium, and 18,372,150 *yen* responded to at par. Among the subscription prices

of this loan the highest was 142.44 *yen*, which was followed by other high prices, such as 125 *yen*, 120 *yen*, etc. Such a response was quite unexampled.

At that time the tightness of monetary circulation was increasing, and the quotation of 5 per cent national loan bonds was below par in the market. It was wholly due to the patriotic nature of the loan, which appealed to the loyalty of the nation, that the flotation of the first military loan at such a time received such an unheard-of response.

(2) The flotation of the second military loan was authorized by Law No. 25, October 23, 1894, and by Imperial Ordinance No. 137, October, 1895. This flotation can be divided into the public subscription and delivery issues.

The public subscription was authorized by Law No. 25, October, 1894, by which the raising of funded loans or temporary loans not exceeding 100,000,000 *yen*, with interest not exceeding 7 per cent, was authorized. The actual amount to be subscribed, the rate of interest, and the method of issue were laid down by Finance Department Order No. 15, by which 50,000,000 *yen*, with interest at 5 per cent, was raised from the public at large. What is called the delivery issue originated in Imperial Ordinance No. 137, October, 1895, by which it was provided that Imperial grants of money, which were to be made in connection with the Sino-Japanese War, could be made with military loan bonds at the convenience of the grantees. Its issue was limited to 10,000,000 *yen*, with interest at 5 per cent, by Financial Department Order No. 3, and the bonds were to be gradually delivered.

The provisions of Law No. 25, October, 1894, were to be applied with necessary modifications to the above-mentioned two kinds of military loans, as far as redemption, payment of interest and other details were concerned. In accordance with Finance Department Order No. 40, November, 1894, 50,000,000 *yen* was subscribed by public subscription with 95 *yen* as the minimum subscription price. The payment of this sum, together with that of the guaranty money, was divided into seven instalments, and June 30, 1895, was fixed as the final

date of payment. The subscribed amount of the first military loan, 30,000,000 *yen*, was then in course of payment. Money circulation was becoming tight day by day. A new subscription amounting to 50,000,000 *yen*, therefore, must needs be at as high a rate of interest as the law permitted. Five per cent, however, was a well-established principle in the case of our public loans. In view of the future consolidation of national liabilities, the government regarded it as more expedient to issue public loans at a lower price, and to maintain a uniform rate of interest, than to float a new loan with interest at 6 per cent. This accounts for the adoption of the method of the subscription below par. The division of payment into seven instalments, fixing the last date of payment on June 30, 1895 (which was the same date as that of the first subscription), was chiefly to simplify its treatment. But notice was taken of the amount required to meet the extraordinary war expenditures and the actual condition of our economic world.

One point worthy of special notice in this connection was the method of its issue. By the application of the proviso of Article 7 of the Consolidated Public Loan Regulation, the government enabled all the applicants for less than 200 *yen* to become subscribers. This measure was to induce men of moderate means to convert small savings into government bonds, which would interfere less with the monetary circulation than the withdrawal of floating capital. Moreover, people of small means would in this way be taught that the national loan was a reliable mode of investment, and thus it would prove, it was thought, an encouragement of thrifty habits. Moreover, it was feared that unless this method was adopted, the patriotic responses from men of moderate means must be rejected and their hopes frustrated, in case the amount subscribed figured to an immense sum. As this subscription was made after the lapse of only three months from the first one, the government entertained a fear as to its outcome. Therefore, as in the case of the previous subscription, it gave private directions to the local authorities and instruc-

tions to the bankers. At the end of the term the total amount reached as much as 90,301,300 *yen*, exceeding the sum invited by 40,301,300 *yen*. The subscription price bore no comparison with that of the first, but still the highest was 120 *yen*. Of the amount responded to, 22,119,850 *yen* was allotted out of the premium subscription and 7,924,000 *yen* out of subscriptions of less than 200 *yen*. Adding to these 19,956,150 *yen* allotted in ratio out of par subscriptions, the total sum came to 50,000,000 *yen*.

The year was then approaching its end, with increasing tightness of monetary circulation, and the quotations of 5 per cent national loan bonds were steadily falling. Such a remarkable success in the face of these distressing circumstances is to be ascribed partly to the perfect method of subscription. But its chief cause lay in the character of the loan, which appealed to the patriotic feeling of the nation.

(3) The flotation of the third military loan was authorized by Law No. 8, March, 1895, which read as follows:

> In order to meet the military expenditures of the North China affair, a further flotation of public loans not exceeding 100,000,000 *yen*, with interest not exceeding 6 per cent per annum, shall be allowed.

This was carried into effect only after March of the following year. The amount did not exceed 35,000,000 *yen*, including both general subscription and special issue.

General subscription, which amounted to 10,000,000 *yen*, was raised by Finance Department Order No. 2, March, 1896. But the results were far from being satisfactory, and the greater part had to be put to special issue. As for the remaining 25,000,000 *yen*, which was to be issued next, special issue was chosen from the beginning, by Finance Department Order No. 4, March, 1896. The interest for both bonds was 6 per cent per annum. The provisions of the Consolidated Loan Regulation above mentioned were likewise to be applied with the necessary modifications with regard to the interest, the payment, and the redemption.

As for the 10,000,000 *yen*, which was to be raised by general subscription, it was provided by Finance Department

Order No. 13, of the same date, that the final date of payment should be October 31, 1896, that the minimum amount of subscription, the rate of security money, and other minor procedural provisions should be similar to those of the first issue. The response, however, to this call was by no means gratifying. The total sum which was tendered by March 21, the final date of application, at the Bank of Japan and its branches and agencies, was estimated at the meager sum of 1,578,050 *yen*. Applications above issue par were 1,026,850 *yen*, and applications at the issue par 551,200 *yen*, and even the highest price did not exceed 103 *yen*. Realizing that the condition of the market forbade any further subscription, the government was obliged to cause the Deposit Section of the Finance Department to subscribe 5,000,000 *yen* out of the remaining 8,500,000 *yen*, and to give directions to the Bank of Japan to subscribe 3,421,950 *yen*.

In short, the sum intended to be raised in the third subscription was realized by resorting to the accommodation of the Deposit Section and the subscription of the Bank of Japan. What could have been the cause of such a great contrast between the unparalleled success of the two preceding flotations, and the utter failure of the present subscription? Probably the latter was due to the sudden expansion of business as a corollary to our victory, which latter gave rise, in the minds of the people, to anticipation of the rise of various enterprises, thus bringing about the stringency in monetary circulation. It was also due to the cooling down of warlike feelings on the part of the nation at the cessation of hostilities. The failure which attended the subscription of 10,000,000 *yen* convinced the government that the same method was no more available for the further sum required, viz., 25,000,000 *yen*. Therefore, it had to have recourse to the method of special issue from the first by Finance Department Order No. 3, March, 1896, making the Deposit Section of the Finance Department subscribe it. Thus, the issue of the military loan was completed by three subscriptions and two special issues. As regards the three subscriptions, there was a discrepancy between the

amount of flotation and the net proceeds, and these three were different in other minor points.

The following shows the comparative statistics of these three subscriptions:

SUBSCRIPTIONS TO MILITARY LOAN[1]

Items	First	Second	Third	Total or Average
	Yen	*Yen*	*Yen*	*Yen*
Amount subscribed	77,002,650	90,301,300	10,000,000	177,303,950
Minimum price of subscription	100,000	95,000	100,000	98,333
Amount of flotation	30,000,000	50,000,000	10,000,000	90,000,000
Amount of subscription at minimum price	65,374,800	68,181,450	8,973,150	142,529,400
Amount of premium subscription	11,627,850	22,119,850	1,026,850	34,774,550
Net proceeds	30,063,371	47,638,851	10,001,257	87,703,481
Excess	47,002,650	40,301,300	....	87,303,950
Maximum price of subscription	142.440	120.000	103.000	121.813
Average price allotted	100.217	95.280	100.013	97.451

The number of subscriptions for the first issue was 119,015; for the second, 173,051; for the third, 2,160, making a total of 294,226. The total receipts in *yen*, including the three subscriptions and the two special issues, were as follows:

Net proceeds of the general subscriptions to military loan	87,710,795[2]
Amount of the special issues	35,000,000
Total	122,710,795
Amount of flotation	124,920,750

Such were the amount of flotation and the net proceeds of the military loan, which was duly floated, in contrast with an estimate of 250,000,000 *yen*, which the government had formulated. Comparing this total with 116,804,926 *yen*, which was the amount of public loans mentioned in connection with the war fund, we find a discrepancy between them. This is due to the fact that the calculation of the war fund was finally

[1] The amount subscribed, and the net proceeds in the third flotation, include the amount subscribed by the Deposit Section of the national Treasury (5,000,000 *yen*) and the amount subscribed by the Bank of Japan (3,421,950 *yen*)

[2] Includes overdue interest (7,313 *yen*) due to the delay of payment.

settled on March 31, 1896, while the final account of the net proceeds mentioned above was taken at the end of the fiscal year 1905.

Public Undertakings Loan

The Public Undertakings Loan, issued in accordance with the Public Undertakings Loan Regulation, Law No. 59, 1896, was in the beginning estimated at 135,000,000 *yen*. This included expenditures (1) for the improvement of government railways, (2) for the construction of the Sorachifuto Asahigawa line in Hokkaido, (3) for the extension of telephone exchanges, and (4) for the leaf tobacco monopoly fund, the total sum of which amounted to 54,025,062 *yen* in round numbers. But (5) by far the largest amount was appropriated to the expenditure for the navy expansion, which figured at 77,168,703 *yen*. Besides (6) there was the expenditure for the establishment of the steel foundry to the amount of 4,095,793 *yen* in round figures, which was planned to accomplish the independence in the supply of arms. Thus, two-thirds of the Public Undertakings Loan were employed for purposes of armament. The above-mentioned public loan regulation consisted of the following three articles:

Article I directed the raising of the face value 135,000,000 *yen* in order to meet the various public undertakings above noted.

Article II provided that the interest on the debt, which should not exceed 5 per cent per annum, was to be definitely fixed at each subscription.

Article III stipulated that in case where there was no provision in this regulation to cover them, the Consolidated Public Loans Regulation, 1886, should be applied.

The Public Undertakings Loan was to be raised beginning with 1896. The monetary conditions of the market were continually strained, so much so that the 5 per cent national loan fell below its face value. This loan, therefore, whose interest was legally fixed at not over 5 per cent, had no bright prospect. Accordingly, instead of adopting an ordinary method of subscription, the government made a special issue during the two fiscal years 1896 and 1897, in accordance with the expedient provided for in Article VI, paragraph 2, of the

Consolidated Public Loans Regulation. The government delivered these bonds to the Bank of Japan; they were then purchased by the Deposit Section of the national Treasury to meet the demands of the various government undertakings expenditures. In this way the amount of issue reached 37,900,000 *yen*. In the next financial year the Public Undertakings Loan and the Hokkaido railway loan, totaling in round numbers 71,000,000 *yen*, were to be floated. But opportunity even for the special issue, to say nothing of general subscription, did not offer itself. Hence, the greater part of the employment of these various public undertakings expenditures had to be put off to the following financial year. Only 17,107,772 *yen* (of which the amount that was to be disbursed out of the Public Undertakings Loan was estimated at 8,763,265 *yen*) was *pro tempore* disbursed out of a fund belonging to the indemnity special account. Thus, not even a single bond was issued in this financial year.

With the opening of the following fiscal year, the government had no alternative but immediately to float a public loan. Moreover, the annual allotment for the various works, amounting to over 20,960,000 *yen*, which was to be met by public debts, had to be raised in this fiscal year. Thus, several unsubscribed public debts for two fiscal years, totalling 100,258,879 *yen*, had to be floated at the same time. To make matters worse, the monetary situation in the home market still presented no signs of recovery; on the contrary, it became more and more strained. Any immediate flotation of domestic loans was, therefore, out of the question, and the government was thrown back upon was the expedient of floating foreign loans.

Hereupon, the government promulgated Law No. 101, April, 1899, entitled "Law Concerning Flotation of National Loans Abroad." In pursuance of this law, and in pursuance of the public undertakings loan law, the railway construction law and the Hokkaido railway construction law, the procedure with regard to foreign subscription was laid down by Finance

Department Order No. 22 in May of the same year. A 4 per cent foreign loan amounting to £10,000,000 sterling was negotiated in London, which was known as the first 4 per cent sterling loan. This foreign loan was underwritten by a syndicate consisting of Parr's Bank, Hongkong and Shanghai Bank, India-Australia-China Bank, and the Yokohama Specie Bank. The Pamua & Golden Hill Co. acted as intermediary. It was agreed that unregistered sterling bonds should be issued, that the repayment of principal and the payment of interest should be made in London, that the redemption should be made within forty-five years, after the lapse of ten years, during which it was to remain unredeemed. Its issue price was 90, and the commission paid to the syndicate was fixed at £400,000. Therefore, though the face value, £10,000,000, was converted into 97,630,000 *yen* in terms of Japanese currency, the net proceeds were only 87,241,278 *yen*.

The money thus raised was divided among the three kinds of public works above mentioned in ratio of the respective amounts of flotation. The allotment of the issue amount and the amount to be raised in the fiscal year, 1899, were as follows:

PUBLIC UNDERTAKINGS LOANS, 1899[1]

Loans	Amount of Allotment of the Issue	Amount To Be Raised in the Fiscal Year 1899				Deficit Flotation
		Amount Brought Over from the Fiscal Year 1898	Amount to be Raised in 1899	Amount to be Increased	Total	
	Yen	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*
Railway loan...	17,577,750	8,364,813	9,212,874	63	17,577,750	....
Public undertakings loan..	78,052,250	70,027,235	11,253,978	87	81,281,300	3,229,050
Hokkaido railway loan....	2,000,000	1,000,000	1,000,000	...	2,000,000	....
Total.....	97,630,000	97,392,048	21,466,852	150	100,859,050	3,229,050

[1] If we compare the 100,859,050 *yen*, which is the total of the amount to be floated in the fiscal year 1899, with the 100,258,879 *yen* which was shown in another place as the amount still remaining unraised, we see that there exists a difference of 600,071 *yen*. This is due to the fact that the figures shown elsewhere make up the sum investigated at the time the flotation was being commenced, which underwent an increase later on.

From the table it is clear that the foreign loans thus raised as the public undertakings loan amounted to 78,052,250 *yen*. Of this sum, the amount appropriated to the armament expansion undertakings was estimated at the immense sum of 54,947,100 *yen*. Of the remainder, possibly with exception of the face value of £900,000 (net proceeds in our currency 7,908,050 *yen*), which was set apart for meeting the expenditure for the establishment of the steel foundry, the entire amount was employed in public works, such as railway and telephone services.

Of the five public undertakings outside of the armament expansion, the establishment of the steel foundry and the improvement of railways incurred increased expenditure, which called for the revision of the public undertakings loan law. Thus by Law No. 2, 1901, the authorized amount of flotation was raised from 135,000,000 *yen* to 150,000,000 *yen*, which was again increased to 175,000,000 *yen* by Law No. 7, 1903.

In conformity with these laws, the total of the internal public undertakings loan issued by the end of the financial year 1903 reached 76,947,750 *yen*.

Besides these, the 4 per cent foreign loan amounted to 78,052,250 *yen*. All public undertakings loans amounted to 155,000,000 *yen* (166,880,050 *yen* at the end of 1907).

The above public undertakings loans included two categories of the armament expenditure and of the other five public works expenditure. They also included within the other five items the expenses of the steel foundry establishment. If we divide the amount of national debts in conformity with this classification, we arrive at the following result:

		Yen
Expenditure for armament expansion		77,168,702
Of the army	18,169,755	
Of the navy	58,998,947	
Expenditure for the establishment of steel foundry		18,622,932
Total		95,791,634
Expenditures for four kinds of public works:		
Issue amount up to 1904		69,208,366
Issue amount up to 1908		71,088,416

We may state in passing, that the total disbursement with regard to the establishment of the steel foundry came to 42,-988,079 *yen* during the financial years 1896–1900. Besides this sum, 1,608,779 *yen* was defrayed to the steel foundry account out of the extraordinary reserve fund, 838,645 *yen* out of the subsidy for raw materials, and 11,136,670 *yen* out of the expenditure for the replenishment of the capital, which came to a total of 59,339,204 *yen*. The amount to be disbursed out of public undertakings loans was, however, as stated in the above table.

Temporary Loans Concerning War Expenditure

As to the war expenditures on account of the Sino-Japanese War and the Chinese affair, a plan had been previously laid down to meet them with suitable resources, in accordance with which they were duly adjusted in later fiscal years.

Of these sources of revenue, there were some that did not allow of prompt disbursement, thus necessitating a recourse to some temporary accommodation elsewhere. It was this circumstance that gave rise to a variety of temporary loans for war expenditure. As a result of readjustment, the temporary loans disappeared within a few years, but for the time being they proved to be a heavy burden upon the national Treasury. These loans included temporary loans for the extraordinary war expenditures concerning the Sino-Japanese War, temporary loan on deposit of the indemnity fund, and temporary loans concerning the North China affair.

(1) *Temporary Loan for Extraordinary War Expenditure*

This debt was contracted from the Bank of Japan at a juncture when the war fund to defray the extraordinary war expenditure in connection with the Sino-Japanese War could not be obtained within the time previously laid down. The government was authorized to adopt this expedient by Law No. 25, 1894, and by Law No. 8, 1895. This money was borrowed

gradually between November 15, 1894, and April 6, 1896, the total amounting to 40,760,000 *yen*; 20,500,000 *yen* was the amount raised by the former law, while 20,260,000 *yen* was obtained by the latter. The dates and amounts of the borrowing are given in the following tables:

TEMPORARY LOAN IN ACCORDANCE WITH LAW NO. 25, 1894

Date of Loans	Amount	Interest Rate	Date of Redemption
	Yen		
Nov. 15, 1894	8,000,000	5% per annum	Mar. 31, 1894
Nov. 26, 1894	1,500,000	"	"
Dec. 10, 1894	3,000,000	"	"
Dec. 15, 1894	3,000,000	"	"
Feb. 1, 1895	2,000,000	"	"
Feb. 6, 1895	3,000,000	"	"
Total	20,500,000		

TEMPORARY LOAN IN ACCORDANCE WITH LAW NO. 8, 1895[1]

Date of Loans	Amount	Interest Rate	Date of Redemption
	Yen		
Nov. 14, 1895	2,000,000	6% per annum	Dec. 31, 1895
Dec. 2, 1895	1,000,000	"	"
Dec. 3, 1895	1,500,000	"	"
Dec. 9, 1895	1,000,000	"	"
Dec. 12, 1895	1,000,000	"	"
Dec. 18, 1895	1,000,000	"	"
Dec. 25, 1895	1,000,000	"	"
Dec. 26, 1895	1,000,000	"	"
Dec. 28, 1895	2,000,000	"	"
Jan. 22, 1896	1,000,000	"	Mar. 31, 1896
Feb. 28, 1896	1,000,000	"	"
Mar. 5, 1896	1,000,000	"	"
Mar. 27, 1896	1,000,000	"	"
Mar. 31, 1896	760,000	"	"
Mar. 31, 1896	500,000	"	June 30, 1896
Apr. 1, 1896	1,000,000	"	"
Apr. 4, 1896	1,000,000	"	"
Apr. 6, 1896	1,500,000	"	"
Total	20,260,000		

[1] It will perhaps strike the reader as strange that the date of redemption of the loan made on March 31, 1896 (760,000 *yen*) was fixed at March 31, 1896. This was due to the fact that on the day previous to the borrowing, it was proclaimed that the redemption of the loan should take place on March 31, and on the self-same day it was postponed till June 30 of the same year.

(2) *Temporary Loan on Deposit of Indemnity Fund*

As soon as the receipt from China of the indemnity of over 364,000,000 *yen* was fixed upon, a special indemnity fund law was promulgated by Law No. 6, 1896, which created a special account for its receipts and outlays. The first outlay upon the establishment of the special account was the disbursement of above 78,950,000 *yen* as an additional account of the 1895 budget. The sum was transferred to the war fund item of the special budget for the extraordinary war expenditure. With this money was paid off a portion of the war expenses, which had been temporarily financed by the diversion of various special accounts and loans from the Bank of Japan. But there was only 9,020,000 *yen* in cash in the special indemnity account, which fell short of the sum required for the outlay above mentioned by over 69,030,000 *yen*. It was therefore necessary to obtain specie from Great Britain; but the transfer of such a large sum before the close of the financial year 1895 was not to be thought of. According to the method of accommodation which had previously been provided in the special indemnity account law to meet such cases, the government procured a temporary loan from the Bank of Japan on foreign deposit of the indemnity fund on and after May 16, 1896. The total sum thus advanced from that date till April 29, 1897, rose to 70,824,703 *yen*, which was paid in eight instalments. This loan on deposit of the indemnity fund was duly liquidated with the transfer of the indemnity money on March 31, 1898.

In August, 1898, gold coins and bullion which had previously been purchased by the Bank of Japan with a portion of the indemnity exchange fund, arrived in rapid succession. The bank, therefore, provisionally paid them back to the national Treasury, pending the completion of the liquidation. The government again deposited the specie in the Bank of Japan to enable the bank to keep it as the specie reserve for convertible notes. At the same time, the government, in order to utilize the money of the indemnity fund and also to accommo-

date the cash needs of the national Treasury, again contracted debts on deposit of indemnity money, an operation which was repeated six times before November 29 of the same year, and the amount of the loans figured up to 29,020,000 *yen*. This loan may well be called a temporary loan for armament expansion, as armament expansion constituted the chief appropriation of the indemnity. This temporary loan was also redeemed on January 31, 1899. This kind of temporary loan amounted to the sum total of 99,844,703 *yen*; but inasmuch as it disappeared by the adjustment of every fiscal year, and bore no interest (though at the outset it bore the low interest of 2 per cent), it does not properly partake of the nature of public loans.

Date of Loans	Amount	Date of Redemption
	Yen	
May 20, 1896	50,000,000	Dec. 31, 1896
Dec. 11, 1896	6,366,190	Mar. 31, 1897
Dec. 23, 1896	407,685	"
Feb. 27, 1897	1,870,997	"
Mar. 5, 1897	3,482,655	"
Mar. 12, 1897	2,273,729	"
Mar. 16, 1897	3,190,812	"
Apr. 29, 1897	3,232,635	Dec. 31, 1897
Aug. 13, 1898	9,900,000	Aug. 31, 1898
Aug. 26, 1898	5,500,000	Nov. 25. 1898
Sept. 15, 1898	2,500,000	Oct. 30, 1898
Sept. 20, 1898	3,000,000	"
Sept. 24, 1898	4,000,000	Oct. 31, 1898
Nov. 29, 1898	4,120,000	Jan. 31, 1898.
Total	99,844,703	

(3) *Temporary Loans with Regard to the North China Affair*

As stated above, upon the occurrence of the Boxer Uprising in North China, our government, in order to meet the urgent expenditures of the army, of diplomacy, of communication, and of postbellum rewards and reliefs, first made an outlay of the second general reserve fund, and then employed the three special funds in accordance with Imperial Ordinance No. 277. But as the disturbance was not brought to an end until the

lapse of several months, the government was obliged to resort to a temporary loan to cover the deficiency of resources. On March 27, 1901, a government contract involving a liability on the part of the national Treasury outside of the budget estimate was authorized. In accordance with this authorization, the government made a contract for raising a temporary loan to the limit of 17,080,000 *yen*, with interest not exceeding 8 per cent, and the date of repayment fixed at two years later. The actual amounts thus borrowed came to 15,500,000 *yen*, and the dates and amounts are shown as follows:

Date of Loans	Amount	Date of Loans	Amount
	Yen		*Yen*
Oct. 30, 1901	500,000	Dec. 24, 1901	1,500,000
Nov. 1, "	1,500,000	" 25, "	1,000,000
" 26, "	1,000,000	" 26, "	1,000,000
" 29, "	1,500,000	" 27, "	2,000,000
" 30, "	1,500,000	" 28, "	2,000,000
Dec. 21, "	1,000,000		
" 23, "	1,000,000	Total	15,500,000

This kind of loan was a temporary loan for war expenditure, and was adjusted and liquidated with the actual receipt of the increased taxes prepared for the North China affair expenditures.

Conclusion

We have explained in the foregoing sections the war and armament loans floated from the Sino-Japanese War to the Russo-Japanese War. Of the above, various temporary loans were adjusted by public debts and other revenues. We, therefore, exclude them from the following summary of the war and armament loans during this period. The kinds and amount of war and armament loans are shown in the following table:

SUMMARY OF WAR AND ARMAMENT LOANS FROM SINO-JAPANESE WAR TO RUSSO-JAPANESE WAR[1]

Fiscal Year	War Loans Floated	Armament Loan	Total	Establishment of Steel Foundry Expenditure Defrayed Out of Public Undertakings Loan
	Yen	*Yen*	*Yen*	*Yen*
1895.....	84,044,000	....	84,044,000	....
1896.....	36,380,000	....	36,380,000	....
1897.....	2,900,000	16,762,036	19,662,036	325,919
1898.....	1,296,000	25,317,631	26,613,631	1,708,270
1899.....	235,750	18,517,655	18,753,405	3,011,008
1900.....	65,000	9,590,345	9,655,345	10,137,186
1901.....	....	3,873,003	3,873,003	5,852,680
1902.....	....	1,358,913	1,358,913	390,117
1903.....	....	1,044,909	1,044,909	....
1904.....	....	478,933	478,933	....
1905.....	....	225,277	225,277	....
1906.....	....	....	....	3,498,885
1907.....	....	....	....	49
Total ..	124,920,750	77,168,702	202,089,452	24,924,114

The above shows the total of the public loans with regard to war and armament during the ten years after the Sino-Japanese War. Besides these, there were also (1) railway loans, in accordance with Law No. 4, 1892 (Railway Construction Law), the issue of which was continued, (2) Public Undertakings Loan, with regard to undertakings other than war and armament, which was issued after 1897, (3) Hokkaido Railway Public Loan, in accordance with Law No. 93, 1896, (4) Formosan Public Undertakings Loan, in accordance with Law No. 75, 1900.

The sum of our public debts at the end of 1903 did not exceed 582,084,110 *yen*.

[1] Based on Finance Department National Loans Statistics and National Loans Specifications. With regard to war loans, as the amount of flotation at the end of each fiscal year could not be obtained, the figures at each year end were inserted. The figures above shown are the amount of flotation, so they do not agree either with the amount invited, or with the net proceeds. Moreover, as they include the part transferred to the general account, they do not accord with the above-mentioned figures of the war fund. The armament loans indicate the net proceeds and actual outlay, and so do not agree with the amounts of flotation as tabulated before.

CHAPTER V

FROM THE RUSSO-JAPANESE WAR TO THE PRESENT DAY

The Russo-Japanese War commenced with the battle of Chemulpo, February 6, 1904, and was terminated with the conclusion of the treaty of Portsmouth. Even after peace was restored the government was obliged to meet the expenses of the withdrawal of troops, expenses with regard to prisoners of war, expenses for the replenishment of the navy, expenses for supplementing warships, and expenses for the rewards granted to soldiers and others. The war expenditures, therefore, were disbursed until June 30, 1907, and the settlement was made on October 31, 1907. The war expenditures during the Russo-Japanese War were divided into extraordinary war expenditures and department extraordinary affairs expenditures. The former belonged to the special account of the budget; the latter to the general account. The plan for and the details of war expenditures will be treated in another treatise in this series, and we intend to confine our discussion to their relation to the public debts. When in October, 1903, the negotiations between Russia and Japan respecting Korea and Manchuria came to a standstill, the government, realizing the necessity of armament replenishment, issued Urgency Ordinance No. 291, December 29, 1903. In accordance with this ordinance the government was authorized to make temporary loans for the disbursement of the necessary expenses for armament replenishment, to employ the funds belonging to the special accounts, or to issue exchequer bonds, and no limit was placed on the maximum amount allowed. On the authority of this ordinance the government decided to look to exchequer bonds amounting to 100,000,000 *yen*, the temporary loans amounting to 30,000,000 *yen*, in round numbers, and the funds belonging to the special accounts amounting to 25,000,-

000 *yen* for their resources; and thus to pay the extraordinary war expenditures 155,900,000 *yen*, the financial department extraordinary affairs expenditures 250,000 *yen* in round numbers, totaling 156,000,000 *yen*, which was the estimate of the expenditures to be incurred till March of the following year. On February 6, 1904, took place the declaration of war. In March, 1904, the twentieth session of the Diet was convened, and the government obtained a postfacto consent with regard to the urgency outlays, and also submitted the estimates of the war expenses from April, 1904, to December, 1904, by which the outlay of 420,000,000 *yen* (extraordinary military expenditures 380,000,000 *yen*, extraordinary affairs expenditures 40,000,000 *yen*) was requested. This request, together with the Draft Law, duly passed the Diet. The resources for this outlay consisted of 62,000,000 *yen*, the increased revenue by the taxes and monopoly, of 48,000,000 *yen*, a surplus fund due to the curtailment of the general account, of 30,000,000 *yen*, the funds belonging to the special accounts and of 280,000,000 *yen*, the proceeds of exchequer bonds and temporary loans. This was the first war estimate. In November, 1904, the government submitted the second war estimate to the twenty-first session of the Imperial Diet.

According to this second estimate, special military expenditures figured 700,000,000 *yen*, and the extraordinary affairs expenditures 80,000,000 *yen*, thus totaling 780,000,000 *yen*. The resources for these expenditures were sought in 48,330,000 *yen*, a surplus due to the curtailment of the general annual account, 8,000,000 *yen*, the part of the fund belonging to the special account which lay still unutilized, and 2,000,000 *yen* due to the voluntary contribution for the war fund and to other miscellaneous revenues. It was clear from the outset that these resources were inadequate for covering the enormous war expenditures. The government, therefore, resorted to the second increase of extraordinary special taxes, thus obtaining 150,000,000 *yen*, and to the flotation of public loans to the amount of 570,000,000 *yen*. With the progress of war,

the shortage of funds for expenditures was keenly felt, and the government submitted to the twenty-second session of the Diet, December, 1905, a supplementary budget of 7,200,000 *yen* as a supplement to extraordinary affairs expenditures and looked for its resources to the surplus fund to be created in the general account. In April, 1906, the government decided upon an outlay amounting to 89,000,000 *yen* in excess of the estimates, of which the sum of 60,000,000 *yen* was for extraordinary military expenditures and 28,800,000 *yen* for extraordinary affairs expenditures. This sum was to be disbursed out of public loans amounting to 60,000,000 *yen*, out of the fund transferred from the special account amounting to 4,000,000 *yen*, and out of the surplus fund of the general account amounting to about 24,800,000 *yen*. As peace was restored in September, 1905, the war expenditures in the strict sense were 1,452,000,000 *yen*, which was the total sum of the above-mentioned expenditures. But the government, at the latter part of the twenty-second session of the Diet, convened at the close of 1905, demanded an outlay of 450,450,000 *yen* as a supplementary budget on account of extraordinary military expenditures, and 84,500,000 *yen* for extraordinary affairs expenditures, and obtained the approval of both houses. These expenditures were needed for the withdrawal of troops, the replenishment of the military forces and the rewarding of soldiers. Its resources were public loans to the amount of 513,640,000 *yen* and the surplus fund of the general account amounting to 16,300,000 *yen*.

Further, to defray the expenses of the residency-general of Chosen and those of the government of Kwantung, the government submitted in December, 1906, to the twenty-third session of the Diet a supplementary budget with regard to extraordinary affairs expenditures, their resources being found in the surplus fund of the general account, and obtained the approval of both houses.

The above is a brief summary of the government financial schemes with regard to the Russo-Japanese War which were carried into effect through the Imperial sanction alone, or with the consent of the Diet.

For the convenience of readers we insert the following table:

EXPENDITURES, RUSSO-JAPANESE WAR, 1903–1907[1]

Class	Extraordinary Military Expenditures	Department Extraordinary Affairs Expenditures	Total
	Yen	*Yen*	*Yen*
Urgency outlay in 1903.....	155,971,035	257,893	156,228,929
The first estimate in 1904....	380,000,000	40,000,000	420,000,000
The second estimate in 1905..	700,000,000	87,200,000	787,200,000
Outlay beyond the estimate in 1906.....	60,000,000	28,825,409	88,825,409
The third estimate in 1906–1907.....	450,450,000	82,000,000	532,450,000
Total.....	1,746,421,035	238,283,303	1,984,704,339

REVENUE, RUSSO-JAPANESE WAR[2]

Class	Extraordinary Special Taxes	Public Loans, Exchequer Bonds, and Temporary Loans	Fund Transferred from Special Accounts	Contributions and Other Revenues	Surplus Fund of General Account	Total
	Yen	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*
Urgency measure (1909)...	....	131,228,929	25,000,000	....	....	156,228,929
The first budget (1908).....	62,201,879	280,000,000	30,000,000	....	47,798,121	420,000,000
The second budget (1905)	150,671,023	571,000,000	8,000,000	2,000,000	55,528,977	787,200,000
Outlay beyond budget (1906–1907).....	....	60,000,000	4,000,000	....	24,825,409	88,825,409
The third budget (1907)	....	513,643,242	....	....	18,806,758	532,450,000
Total.....	212,872,902	1,555,872,171	67,000,000	2,000,000	146,959,265	1,984,704,339

The financial scheme for the war expenses figures up to 1,984,700,000 *yen*, both in revenue and in expenditures. But the actually settled account showed a figure much smaller than this amount.

[1] In addition, there was also 1,422,584 *yen*, disbursed out of reserve fund and surplus fund as department extraordinary affairs expenditures in the fiscal year 1904.

[2] The surplus of years account was the fund, obtained or expected to be obtained by the curtailment of military and naval general expenditures, suspension of public loans redemption, curtailment of extension of steamship routes expenditures, and of encouragement of navigation, curtailment and postponement of continuing expenditures.

Looking first at the final account from the standpoint of expenditure, it consisted of extraordinary military expenditures and the department extraordinary affairs expenditures, and was as follows:

	Yen	*Yen*
Extraordinary military expenditures:		
In charge of Army Department	1,283,318,056	
" " " Navy "	225,154,482	
		1,508,472,538
Department extraordinary affairs expenditures:		
Fiscal year 1903	1,560,209	
" " 1904	31,548,913	
" " 1908	109,638,306	
" " 1909	65,223,485	
" " 1910	13,610,695	
		221,581,608
Total		1,730,054,146

To provide resources for these expenditures, the government, in accordance with the aforesaid scheme, made a great curtailment in the general account, thereby creating a surplus. Besides, it diverted the three great special funds and other funds of the special account; established and increased extraordinary special taxes in 1904 and 1905, and floated public loans and temporary loans both at home and abroad, before and after the declaration of war. These, together with voluntary contributions for the military fund and miscellaneous revenues, were appropriated to the disbursement of the war expenses. As to the extraordinary military expenditures for the army and navy, a special account was created and a clear settled account was obtained of the kinds and amount of the resources employed for extraordinary military expenditures.

As to the department extraordinary affairs expenditures, no special account was established, and settlement was made at each fiscal year in the general account, and their resources were utilized in common with the general income. The kinds and amount of the resources, therefore, are not clear.

The final settlement of the war fund revenue as a resource for the extraordinary military expenditures, which amounted to 1,508,472,538 *yen*, was as follows:

WAR FUND FOR RUSSO-JAPANESE WAR

	Yen	*Yen*
Transferred from general account:		
Receipt of extraordinary special tax	119,000,000	
Surplus due to curtailment of expenditures	63,430,129	
		182,430,129
Transferred from special accounts:		
Warship and torpedo boat replenishment fund	38,311,977	
Calamity reserve	10,000,000	
Education reserve	10,000,000	
Forestry fund	3,000,000	
Diversion of other special account funds	8,000,000	
		69,311,977
Public loans:		
Net proceeds of exchequer bonds, fifth issue	434,885,638	
Net proceeds of sterling loans, fourth issue	689,594,571	
Net proceeds of extraordinary military loans	294,251,021	
		1,418,731,230
Contribution and miscellaneous receipt:		
Contribution to war fund	2,331,176	
Sale of government property	18,875,114	
Transportation receipt	9,908,783	
Special receipt	3,516,324	
Miscellaneous receipt	16,107,521	
		50,738,918
Total		1,721,212,254

Comparing this total of war funds with the amount of the extraordinary military expenditures, the former exceeded the latter by 212,739,718 *yen*. This surplus did not serve as a resource for department extraordinary affairs expenditures, but the greater part of it was transferred to the general account, while a small remainder became the revenue of the general account after the war as a pure surplus. The figures are as follows:

	Yen
Appropriated to extraordinary military expenditures of general account	137,243,731
Transferred to the general revenue of the general account	75,495,987
Surplus of the receipt of war fund	212,739,718

The resources for 221,581,608 *yen*, the total amount of department extraordinary affairs expenditures, were the general revenue of the general account, especially the surplus fund due to the curtailment of the annual account, the remainder of the extraordinary special taxes, and the natural increases of revenue. The department extraordinary affairs expenditures, therefore, had no immediate relation with war loans.

In short, the war loans with regard to the Russo-Japanese

War consisted of five exchequer bonds, four sterling loans and three extraordinary military loans. To this must be added the temporary loan for the redemption of military bills, which amounted to 15,250,000 *yen*.

We shall next say a few words about the expansion of armament newly planned after the conclusion of the war. At the time of the opening of hostilities with Russia the military authorities changed the formal plan of mobilization and organized four new standing divisions in 1906. When the budget for the year was submitted to the Diet, they demanded of the Diet an outlay required for the two more standing divisions, and obtained its consent. Thus the army of the Empire increased by six divisions and the standing army numbered nineteen divisions. The naval authorities also planned the construction of new warships, and after the war demanded an outlay required for the scheme. The tonnage of warships and torpedo boats was only 260,000 tons before the war, but in 1908 it reached 513,000 tons.

From the fiscal year 1907 military authorities expanded armament in the name of expenditure for repair and furnishing and postbellum expenditure, besides the expenditure for remaining business concerning the extraordinary military expenditure; naval authorities also planned a great expansion in the name of supplementing expenditure for warships and torpedo boats and expenditure for repairing and replenishing, besides the expenditure for manufacturing warships, which was already decided. In the fiscal year 1911, before this third expansion was yet concluded, the naval authorities again made an addition of 82,000,000 *yen* in round numbers as the fourth expansion scheme to the 350,000,000 *yen*, which had been the total sum of the naval expenditures, thus raising it to 440,309,016 *yen*. They decided to make an outlay of 248,000,000 *yen* in round numbers between 1911 and 1916. The most of the sum has already been expended, and the sum still remaining in 1914 is only 108,370,870 *yen*. The total sum for the army expansion was 168,237,087 *yen*, the sum remaining to be expended after 1914, viz., 45,811,765 *yen*. Thus, the ex-

pansion of armament in army and navy involved an expenditure amounting to 608,000,000 *yen* in round numbers, of which about 454,000,000 *yen* has already been expended, and the sum remaining to be expended in and after the fiscal year of 1914 is 145,000,000 *yen* in round numbers. The resources for this were not sought in the flotation of public loans, but in the general revenue of the general account. Inasmuch as the general account could not supply such a big sum of money, the surplus money transferred from the extraordinary military expenditures special account, the increased revenue due to the increase of taxes in 1908, the curtailment of the general account, and the natural increase of the old resources had to be resorted to. In short, the postbellum expansion of armament was planned in the fiscal years of 1907 and 1911 and is still being carried on, but no public loans were floated for that purpose. From the Russo-Japanese War to the present, therefore, no public loans with regard to war have been raised.

The war loans to be considered in the following sections are the exchequer bonds, sterling loans, the extraordinary affairs loan, loans for the redemption of military bills and several temporary loans.

Exchequer Bonds

Exchequer bonds were domestic loans with coupons, issued during the Russo-Japanese War, to raise a big sum for war funds. The term was fixed at five or seven years. At first they were floated in accordance with an Imperial Urgency Ordinance, December, 1903. But later, they came to be regulated by Law No. 1, March, 1904, and Law No. 12, January, 1905. The sum floated amounted to 480,000,000 *yen*.

The first issue amounted to 100,000,000 *yen*. The details of this issue were provided for by Finance Department Order No. 4, February, 1904, which was put into effect in July of the same year. The bonds took the form of unregistered bonds with coupons and included issues of minor units such as 25 *yen* and

50 *yen*. The interest was fixed at 5 per cent per annum, and the redemption was to be made within five years. The issue price was 95, and the payment was to be made in five instalments.

The second issue amounted to 100,000,000 *yen*. Its details were stipulated for by Finance Department Order No. 17, May, 1904. The issue amount, the rate of interest, the kinds of bonds, etc., were similar to the provisions of the preceding issue. The term of redemption was fixed at seven years. The issue price was 92, and the payment was to be made in nine instalments.

The third issue amounted to 80,000,000 *yen*. The details were laid down by Finance Department Order No. 41, October, 1904. The terms of redemption, rate of interest, price of issue, etc., were similar to those of the second issue. The number of instalments, however, was changed into eight, and its procedure was much simplified.

The fourth issue was 100,000,000 *yen*. Its details were prescribed by Finance Department Order No. 8, March, 1905. The rate of interest was fixed at 6 per cent, the issue price at 90, the terms of redemption at seven years and the number of instalments was reduced to six. Other details were similar to those of the first issue.

The fifth issue also amounted to 100,000,000 *yen*. Its details were laid down by Finance Department Order No. 26, April, 1905. The rate of interest, the terms of redemption, issue price, and other details followed the example of the fourth issue. But allotments less than 25 *yen* for which hitherto the minimum bond of 25 *yen* was delivered were excluded from the amount invited and were apportioned among the allotments more than 25 *yen*.

The success or failure of subscriptions for the exchequer bonds was significant of the financial capacity of Japan, which was watched with eagerness both at home and abroad. The government, therefore, paid the closest attention to each issue and the convenience of the subscriber was fully taken into con-

sideration. Especially noteworthy is the fact that, in accordance with the Communication Department Order No. 67,[1] the management of applications, payments, etc., came into the hands of the post-offices. Each issue was attended with great success. The maximum of the total amount responded to was approximately five times as much as the amount issued. Even the minimum response was not less than three times as much. The highest application above par was as much as 77 per cent of the amount of issue price. Especially in the fourth issue, applications came in abundance from foreigners, which rose to 82,620,000 *yen* in round numbers. In their issue prices, as well as in the percentage of response, the present issues were widely different from those in the Sino-Japanese War, which indicated the remarkable economical progress of our nation. The following table shows (in *yen*) the amount offered, issue prices, and the amount responded to, the amount of issue, and the net proceeds:

EXCHEQUER BONDS[2]

Bonds	Amount Invited	Issue Price	Amount Responded	Amount of Issue	Net Proceeds
	Yen	*Yen*	*Yen*	*Yen*	*Yen*
First issue (5%) . .	100,000,000	95	452,130,457	96,977,400	92,376,124
Second issue (5%)	100,000,000	92	322,190,950	98,876,650	90,981,796
Third issue (5%) .	80,000,000	92	245,829,200	77,480,725	71,288,675
Fourth issue (6%)	100,000,000	90	485.876,250	99,790,575	90,254,962
Fifth issue (6%) . .	100,000,000	90	498,261,220	99,936,150	89,989,081
Total	480,000,000	. .	2,004,288,177	473,061,500	434,885,638

EXTRAORDINARY MILITARY EXPENDITURES LOAN

When the peace between Russia and Japan had been restored, a great sum of money was required to cover the deficits of the war expenditures, the withdrawal of troops, and the grant of rewards. The government, in order to meet these expenses, submitted to the twenty-second session of the Imperial

[1] Regulation with regard to the management of exchequer bonds issue by the post-offices.

[2] This table is based on the "Report of War Finance" and "National Loans Statistics."

Diet a bill relating to the disbursement of the extraordinary military expenditures, and, with the approval of the same, promulgated Law No. 1, March, 1906. In accordance with this law the government had the authority either to float temporary loans or funded loans, or to employ the funds belonging to the special account, to the extent of 363,000,000 *yen*, in order to meet the extraordinary military expenditures (Art. I). To meet the requirement for replenishing the army and navy, as well as other public works, and to meet an extraordinary outlay for military purposes for Korea and Manchuria, the government was authorized to employ the funds belonging to the special accounts and to float public loans to the amount of 70,000,000 *yen* (Art. II).

The extraordinary military expenditures loan was floated in accordance with this law. This loan consisted of 5 per cent funded bonds to be paid off in thirty years, after remaining unredeemed for five years. This was therefore called a special 5 per cent public loan. There were two categories to this loan. The extraordinary military expenditures loan of the first category was floated by the terms laid down in Finance Department Order No. 8, March, 1906. Its main object consisted in the replenishment of the army and navy and the withdrawal and supplement of troops. Its minimum issue price was 95. The payment was to be made in five instalments, and a discount of 80 *sen* per 100 *yen* (face value) was granted to those who made their payment in two instalments instead of five. Moreover, in payment, the exchequer bonds of the fourth and fifth issues were allowed to be substituted for cash, and the substitute price was to be determined by the face value plus accrued interest. In case the amount subscribed exceeded the sum required, it was to be accepted in the order of the highest bids, till the necessary amount was met. In case prices tendered were the same, allotment was to be made in ratio of the amount subscribed.

The amount responded to before the subscription was closed was 372,829,100 *yen* which exceeded the amount invited (200,000,000 *yen*) by 172,829,100 *yen*, or a little over 86.4

per cent more than the invited sum. These figures are shown in the following table:

	Yen
Amount invited	200,000,000
Amount responded to in cash	333,467,100
" " " in subscription	333,467,100
Total amount responded to	372,829,100
Application above par	12,315,200
" at par	360,513,900
Amount of excess	172,829,100
Net proceeds	189,064,218

Of the allotment, amounting to 200,000,000 *yen*, 328,900 *yen* could not be obtained. New bonds, amounting to 500 *yen*, were issued as substitutes for lost bonds. With the deduction of the former, and the addition of the latter, the amount of issue was finally fixed at 199,671,600 *yen*.

The second kind of extraordinary military expenditures loan was issued in accordance with the conditions provided for in Finance Department Order, June, 1906, to provide a fund for grants to soldiers. It was delivered by special issue, and the amount of issue was 110,722,950 *yen*. The issue price having been only 95, the actual sum of the grant was calculated at 105,186,806 *yen*.

Thus the grand total of the extraordinary military expenditures loan, including both the first and second issues, figures up to 310,394,550 *yen*. This was the sum outstanding on March 31, 1907. As there was an increase of 2,450 *yen* in the issue amount, the floated sum after 1908 was revised to 310,407,000 *yen*.

Six Per Cent Sterling Loan

Upon the outbreak of war between Russia and Japan it was clear that the stupendous outlays necessary to carry on the war could not be raised in the home market alone, as was done in the Sino-Japanese War. The government planned from the outset to depend upon foreign loans for a part of its resources. In February, 1904, negotiations were started to float a sterling loan not exceeding £20,000,000 on the London market. The terms proposed by foreign capitalists, however, were far from being satisfactory to our government. The

requirement for foreign loans steadily increased after the declaration of war, while the specie reserve of the Bank of Japan sank terribly. It stood then at about 83,000,000 *yen*, and there were gloomy apprehensions of a further outflow of a huge amount. On the other hand, the issue amount of convertible notes was approximately 286,000,000 *yen*, thus exceeding the legal limit by 83,000,000 *yen*.[1] Moreover, metallic currency was badly needed for the repayment of the principal and payment of the interest of the old foreign loans. Under the pressure of these circumstances the government finally accepted the terms of the capitalists, but with some favorable modifications; and it decided to float £10,000,000 on May 7, 1904. A provisional contract concerning the flotation of public loans was entered into with Parr's Bank, the Hongkong and Shanghai Banking Corporation, and the Specie Bank, and in May, 1904, a regulation with regard to the first 6 per cent sterling loan was promulgated by Imperial Ordinance No. 138. The regulation provided, (1) that the total value of the issue should be £10,000,000, with the rate of interest at 6 per cent per annum, (2) that the loan could be redeemed at six months' notice after the lapse of three years, though the term of redemption was fixed at seven years, (3) that the issue price should be £93, 10*s*. per £100 and the net proceeds to the government £90 per £100, (4) that government receipts of customs duties should be made security for the repayment of the capital and payment of interest, (5) that coupons overdue and clipped might be appropriated to the payment of customs duties, at the rate of 1 *yen* per 2*s*. 0½*d*., and that the subscriptions should be paid in full between May and August, 1904, in four instalments. As to the interest, the portion for the first half year was to be paid on October of the current year, and that for the second half year on April 5 of the following year. Thenceforth, the interest for each half year was to be paid on October 5 and April 5.

The program of issue was published from the issuing banks on May 10 in New York (11th in London) and the filing of subscriptions commenced on the 12th of the same month.

[1] Statistics at the end of 1904.

Just then the Yalu battle was fought, which resulted in our favor. It carried confidence in Japan to the highest pitch. The application for subscriptions, therefore, was attended with great success, so that the application was closed on the same day in London, and on the following day in New York. In London the amount subscribed reached over thirty-three times the sum required, the number of applications being about 30,022, representing a sum of about £151,975,500. In New York it attained nearly five times the amount invited, and the sum paid up by the subscribers was all transmitted to London. Thus our government received between May and August of the same year from the issuing banks £9,000,000 (86,834,170.854 *yen*) in four instalments, after the deduction of the commissions.

The greater part of the fund raised by the first sterling loan was delivered to the Bank of Japan for the redemption of temporary loans, and the same bank was directed to keep it as specie reserve. The specie reserve, which had once decreased to 80,000,000 *yen* in round numbers, again increased to 115,000,000 *yen*. The war assumed ever-increasing dimensions, and the foreign payments of the government had the prospect of attaining a stupendous amount. The finance minister, therefore, decided to contract another debt amounting to from 100,000,000 *yen* to 200,000,000 *yen* during 1904. Negotiations with regard to the flotation of a foreign loan were commenced in October of the same year. The public credit at that time could not have been better, as the progress of the war was on our side, and as the money markets abroad were then sluggish. Accordingly, the negotiations in London progressed smoothly. Incidentally, however, the North Sea affair sprang up between Great Britain and Russia, which accounted for the tendency to decline of our first 6 per cent public loan. The government was obliged to comply with a request of the capitalists, and make some modifications in the issue price and commissions. The government, after conceding these variations, finally appointed a financial commissioner to conclude a provisional agreement with the represent-

atives of the aforesaid issuing banks on November 8, with regard to the subscription of £12,000,000. The terms of the subscription were (1) that the amount of issue should be fixed at £12,000,000, (2) that the rate of interest should be 6 per cent per annum, (3) that the term of redemption should be seven years, (4) that the issue price should be £90, 10*s*. per face value £100, (5) that the net proceeds of the government should be £86, 15*s*. after deducting £3, 15*s*. as commissions, (6) that the customs duties were to be made security to guarantee the present loan after the redemption of the first 6 per cent sterling loan.

The legal limit[1] to public loans issues had already been filled to its utmost capacity through these several issues. Upon the conclusion of the present agreement, therefore, the government had recourse to the promulgation of an Imperial Urgency Ordinance No. 288, November 10, enabling itself to issue a government loan amounting to 120,000,000 *yen* for meeting the extraordinary military expenditures. Simultaneously with this ordinance, Ordinance No. 229 was promulgated, which laid down the terms and the procedure of the subscription, which was substantially the same as the provisions of the first loan.

This loan was raised in London and New York. In London, the receipt of subscription tenders was opened on November 14, 1904, and closed at noon of the following day, when the number of applications rose to 29,938, representing a sum of £80,533,800, or more than thirteen times the sum required. In New York, too, the receipt of tenders was commenced on November 14, but was not closed until the 18th of the same month, for the convenience of the local applicants and for the encouragement of small tenders. The amount subscribed figured up to six or seven times the sum invited. The money raised in London, amounting to £5,205,000 (50,219,095.471 *yen*) was received in four instalments between December, 1904, and March, 1905. The money raised in New York, amounting to $25,348,350 (50,244,499.505 *yen*) was received in

[1] 280,000,000 *yen* provided by Law No. 1, Art. 2, 1904.

three instalments between December, 1904, and January, 1905. In short, the total sum actually received was 100,463,-594.982 *yen*.

The 6 per cent public loans raised during 1904 totaled 214,786,000 *yen* according to the amount of issue, or 187,297,-765 *yen* according to the net proceeds. The above two 6 per cent public loans amounting to £22,000,000 were raised on the most unfavorable terms, wholly on account of the urgent necessities of the war. When the optional redemption period (April 5, 1907) approached, after the restoration of peace, a 5 per cent sterling loan was floated in March, 1907, and the full repayment was thus completed in September, 1907.

Four and a Half Per Cent Sterling Loan

Out of the public loan amounting to 571,000,000 *yen*, which was to be floated to meet the extraordinary military expenditures of 1905, 120,000,000 *yen* was to be received in March of the same year through the flotation of the second 6 per cent sterling loan. The disbursement of expenditures, and the necessities of general economy, compelled the government to raise the remaining sum in 1905. With this object in view the government dispatched financial committees to London in February, 1905. Just then the war had attained a remarkable development, and Europeans and Americans were amazed and dumbfounded at the surrender of Port Arthur, and the signal victory at Mukden. Their sympathies were enlisted toward Japan, and the capitalists competed with one another in subscribing to our loans. The government was, therefore, in a position to conclude an agreement with the three issuing banks (Parr's, Hongkong and Shanghai, and Yokohama Specie), in March, 1905, upon more favorable terms than in the preceding loans, and with an increase of the amount invited. The more important terms of the agreement were, (1) that the amount of issue should be fixed at £30,000,000, (2) that the rate of interest should be 4.5 per cent per annum, (3) that the term of redemption should be twenty years, with the proviso that after remaining unredeemed for five years bonds could be

redeemed at six months' notice, (4) that the issue price should be 90, (5) that the commission should be £3, 5*s*., *i.e.*, the net receipt of the government was £86, 5*s*. per £100, (6) that the security should be the net receipt out of the tobacco monopoly, (7) that the monthly payment of interest should be superseded by one single payment before the date due, (8) that, as in the preceding cases, the amount of issue should be divided between London and New York.

This third sterling loan was the so-called first 4.5 per cent sterling loan. Upon the conclusion of the agreement with regard to this loan, the government, in conformity with Law No. 12, January, 1905, laid down in Imperial Ordinance No. 73, March 27, 1907, the rules concerning the terms and the procedure of the issue. This loan was so popular in London that it commanded a premium of from 1 to 2.5 per cent prior to its issue. Thus upon opening the subscription at 9 a.m. on March 29, the space outside every issuing bank was crammed with people,—so much so that policemen had to be on the watch to maintain order. This was specially the case with the Hongkong and Shanghai Banking Corporation, in front of which scenes of great disorder were witnessed. The subscription was therefore closed at 3.30 p.m. of the same day. The amount subscribed figured about eleven times the sum required, £15,000,000. The total sum subscribed was £162,949,000, of which £151,000,000 was responded to by England (applicants numbering 50,000) and the remainder—£11,949,000—was responded to by Germany, Belgium, Switzerland, the Netherlands, Austria and other different continental countries. In New York the receipt of subscription tenders was opened on the same day as in London and was closed at 3 p.m. on the following day (the 30th). The amount applied for rose to about $500,000,000, or nearly seven times as much as the sum required.

Out of the 50,000 applicants in England, over 43,000 persons were offerers of below £2,000, and in New York, too, there were numerous small applications. One special feature of this subscription was the great response from the countries of

continental Europe. France made every effort to secure a private agreement for underwriting it, and upon the commencement of the subscription French capitalists offered large subscriptions both in London and in New York. This virtual monopoly of the money markets in Europe and America was undoubtedly the result of the consecutive victories of our army and navy and the rise of our financial credit. Out of this loan, £13,012,500 (125,547,738.694 *yen*) was received in London in five instalments between August and April of the same year. In New York $63,370,875 (125,611,248.762 *yen*) was likewise received in three instalments between April and June of the same year. The subscription figured up to 300,000,000 *yen*, and the amount actually received by the government was 251,158,987 *yen*, the issue amount being 292,890,000 *yen*.

During the subscription of the first 4.5 per cent sterling loans, the decisive battle of the Japan Sea was fought. As soon as the report of this unparalleled victory was dispatched to Europe and America, the sympathy for our country rose even to madness. The market prices of our bonds advanced by leaps and bounds, promising a unique opportunity for the the flotation of a public loan. Our government had already issued exchequer bonds in the home market to the aggregate amount of 200,000,000 *yen*, which together with the third sterling loan exceeded the amount of flotation previously fixed for 1905. The war continued, however, pushing the restoration of peace to a distant future and involving increasing war expenditures. The subscription of foreign loans had to be relied upon in the future, and the victory offered the best opportunity for this expedient. Hereupon our financial agents again opened negotiations with regard to the flotation of another loan, and an agreement on the same terms as the previous ones was concluded with the issuing banks. The only difference was, that while the issues were hitherto limited to the markets in England and America, Germany now came into the list, and the subscription was equally divided among these three markets. Upon the conclusion of the agreement, the government promulgated an Imperial Ordinance No. 194, July 8, 1905, au-

thorizing a loan amounting to 300,000,000 *yen* to cover the extraordinary military expenditures. On the same day Imperial Ordinance No. 195 was promulgated providing for the details of the subscription. The ordinance provided (1) that the amount of subscription should be £30,000,000 sterling with the underwriter specified, (2) that the rate of interest should be 4.5 per cent per annum, (3) that the principal should be repaid not later than July 10, 1924, according to the face value, and not before July 10, 1910. The government could, if it thought fit, redeem a portion or the whole of it at six months' notice in the newspapers. The redemption of the principal and interest of this loan was secured on the profit of the tobacco monopoly, subject, however, to preferential security of the first 4.5 per cent sterling loan, (4) that the issue price be 90, (5) that the principal be paid during the period extending from July, 1905, to December, 1905, (6) that the half-yearly interest for the amount subscribed should be paid on January 10, 1906.

The sale began on July 11 in London and Germany, and in New York on the 12th, and in each case was closed on the same day. The result was splendid, inasmuch as the amount subscribed was a little less than ten times the sum required in London, four times and a half in New York, and a little lower than ten times in Germany. Not only in politics, but in monetary matters, both Germany and France had from the outset been Russian supporters. Nevertheless, our loans came to be welcomed even in the German market, besides those of England and America, which had been friendly to us from the beginning. As an ally of Russia, France could not open her market to us, but her capitalists vied with one another in subscription on the British and American markets.

Other continental countries, such as Belgium, Switzerland, Holland, etc., also heartily welcomed the loan. Our glorious victories both on land and sea so highly affected the feeling of Americans and Europeans that our government attained an unprecedented success in the subscription to loans. Thus, in the second subscription, our government actually realized

251,137,817 *yen* against a nominal issue of 292,980,000 *yen* of the 4.5 per cent sterling loan.

Temporary Loan for Redemption of Military Bills

The military bills had been issued to defray war expenses at the scene of action as well as to accommodate the national Treasury, when enormous national outlays and foreign payments made the economy of metallic currency desirable. They had served as a medium of payment for defraying the expenses in connection with junks, wagons, horses, coolies, etc., in a district where silver coins were in circulation, and were exchanged for one *yen* silver coins through the Yokohama Specie Bank. They consisted of six kinds of bills, *i.e.*, ten *yen*, five *yen*, one *yen*, fifty *sen*, twenty *sen*, and ten *sen* bills. At first, 100,000,000 *yen* was fixed as the maximum. With the development of the war the amount was gradually increased, and for a time reached over 140,000,000.[1] At the commencement of the war, *i.e.*, at the end of March, 1904, the amount did not exceed 2,459,600 *yen*, but at the end of March, 1905, it rose to 70,125,609 *yen*, and it was subject to numerous fluctuations later on. After the restoration of peace the sum of 15,253,358 *yen* was, on August 1 of the same year, borrowed without interest from the Yokohama Specie Bank, in accordance with Law No. 1, March, 1906, the object being the withdrawal and redemption of the military bills. The above explains why it was called the temporary loan for the redemption of military bills. During the same year, 3,038,025 *yen* was repaid by this loan and the amount unredeemed at the end of the fiscal year 1906 decreased to 12,215,333 *yen*. Since then they have been steadily withdrawn, so that at the end of the fiscal year 1912 (the first fiscal year of Taisho) the amount unredeemed stood at 1,979,517 *yen*. The following table shows (in *yen*) the amount of military bills outstanding and unredeemed at the end of each financial year since 1907:

Fiscal year ending	1907	4,984,568		Fiscal year ending	1910	2,347,636
" " "	1908	2,831,332		" " "	1911	1,979,517
" " "	1909	2,444,294		" " "	1912	1,979,517

[1] War Finance Account Report.

As can be inferred from the preceding statement, the temporary loan for the redemption of military bills, amounting to 15,253,358 *yen*, remained as a burden upon the general annual account, and must not be counted among the extraordinary war expenditures.

Miscellaneous Temporary Loans

For the extraordinary war expenses, appropriate resources had previously been chosen. In extraordinary emergencies, like wars, it is unavoidable that ends do not always meet. Therefore, as a measure for meeting the deficits, whenever they occurred, the government promulgated Imperial Ordinance No. 291, 1903, Law No. 1, 1904, Law No. 12, 1905, and Law No. 1, 1906. In accordance with these laws and ordinance miscellaneous floating debts were incurred several times from the Bank of Japan after December, 1903, under the names of temporary loan for defraying armament expenditures, temporary loan for constructing warships, temporary loan for extraordinary military expenditures, and loan for the redemption of military bills, which latter formed the subject of the preceding sections.

(1) *Temporary Loan for Defraying Armament Expenditures*

This loan was made by the government in accordance with Imperial Urgency Ordinance No. 291, December, 1903, between December 31, 1903, and June 31, 1904, from the Bank of Japan, at the daily interest of 1.6 *sen* per 100 *yen*. Its amount was: 1903, 7,000,000 *yen*; 1904, 34,500,000 *yen*; total, 41,500,000 *yen*.

This temporary loan was liquidated out of the extraordinary war expenditures fund, and the amount outstanding entirely disappeared in July, 1904.

(2) *Temporary Loan for the Construction of Warships*

This temporary loan was also borrowed from the Bank of Japan, at the daily interest of 1.6 *sen* per 100 *yen*, by Imperial Ordinance No. 241, December, 1903. The amount borrowed

reached in 1904 2,500,000 *yen*. On January 23, 1906, it was cleared off in a single payment out of the war fund.

(3) *Temporary Loan for Extraordinary Military Expenditures*

This loan was made in accordance with Law No. 1, January, 1904, Law No. 12, January, 1905, and Law No. 1, March, 1906, and was borrowed from the Bank of Japan between 1904 and 1906 as a temporizing expedient for the payment of the extraordinary military outlays. Its daily interest varied from 1.6 *sen* to 2.2 *sen*, and the amount borrowed was (in *yen*) as follows:

1904	182,000,000
1905	126,125,000
1906	65,125,000
Total	373,250,000

The portions borrowed in accordance with Law No. 1, January, 1904, proved to be 182,000,000 *yen* in 1904 and 57,000,000 *yen* in 1905, both of which were paid off by the end of May, 1905. The debt contracted in accordance with Law No. 12, 1905, was 69,125,000 *yen* in 1905 and 9,625,000 *yen* in 1906, and the total sum was finally liquidated in October, 1906. The debt incurred in accordance with Law No. 1, March, 1906, was 55,500,000 *yen*, which was finally redeemed in July of the same year. It may easily be inferred that the resources for these repayments were supplied out of the fund raised by the public loans relating to extraordinary war expenditures.

The flotations of the aforesaid loans were measures for temporary accommodation with regard to the extraordinary war outlays, and every one of them was readjusted and repaid not later than the settlement of the extraordinary war expenditures. Therefore, they overlap the receipts of the extraordinary military expenditures fund.

Conclusion

To sum up what has been said in the foregoing sections: From the Russo-Japanese War to the present day a great amount of war loans—but not armament loans—have been

floated. The war loans consisted of five exchequer bonds, four sterling loans and two extraordinary military affairs loans and temporary loans for the redemption of military bills. The following table shows the amount subscribed and the amount actually realized:

SUMMARY OF LOANS FROM RUSSO-JAPANESE WAR TO PRESENT DAY[1]

Kind	Date of Issue	Interest	Amount Floated		Net Proceeds	
		Per cent	*Yen*	*Yen*	*Yen*	*Yen*
Exchequer bonds, 1st issue	Feb. 1904	5	96,977,400	....	92,376,124	....
Exchequer bonds, 2d issue	May, 1904	5	98,876,650	....	90,981,796	....
Exchequer bonds, 3d issue	Oct. 1904	5	77,480,725	....	71,288,675	....
Exchequer bonds, 4th issue	Feb. 1905	6	99,790,575	....	90,254,962	....
Exchequer bonds, 5th issue	Apr. 1905	6	99,936,150	473,061,500	89,984,081	434,885,638
6% sterling loan, 1st issue	May, 1904	6	97,630,000	....	86,834,171	....
6% sterling loan, 2d issue	Nov. 1904	6	117,156,000	....	100,463,595	....
4½% sterling loan, 1st issue	Mar. 1905	4½	292,890,000	....	251,158,987	....
4½% sterling loan, 2d issue	July, 1905	4½	292,890,000	800,566,000	251,137,817	689,594,570
Special 5% extraordinary military expenditure loan	Mar. and June, 1906	5	310,400,700	310,400,700	294,251,021	294,251,021
Total		..	....	1,584,028,200	....	1,418,731,229
Temporary loan for the redemption of military bills	Aug. 1906	0	....	15,253,358	....	15,253,358

Of the above, the fourth and fifth 6 per cent exchequer bonds, amounting to 199,726,725 *yen*, were redeemed by the second 4 per cent sterling loan, amounting to £25,000,000, or 244,075,000 *yen*,[2] which was floated in the markets of England, America, France, and Germany in November, 1905. The second 4 per cent sterling loan was floated by Imperial Ordinance No. 241, November, 1905, in accordance with Law No. 1, 1904, and Law No. 12, 1905. It was raised without any secur-

[1] This table was made on the basis of the figures as shown in the preceding sections. The total sum of the net proceeds of the exchequer bonds, the sterling loans and extraordinary military expenditures loans are the same as the settled amount of public loans exchequer bonds, temporary loans in the fund revenue belonging to the special extraordinary military expenditures account as stated in the general review above. This shows that the total amount of the money realized was transferred to the war fund.

[2] The amount actually realized was 214,720,000 *yen*.

ity. The issue price was 90, and the rate actually received was 88. The principal was to be redeemed not later than January 1, 1931. But on and after January 1, 1921, the whole or a part of it could be redeemed at the convenience of the government with six months' notice. The amount actually received was 214,720,000 *yen*, and after the redemption of the fourth and fifth exchequer bonds a small amount of surplus (about 54,376,000 *yen*) was left over. The first, the second, and the third 5 per cent exchequer bonds amounting to 273,334,775 *yen*, were mostly redeemed by the surplus of the foreign loans and of the ordinary revenue, while a part of them was redeemed out of the 5 per cent public loan for the readjustment of exchequer bonds, amounting to 31,001,050 *yen* floated in the home market in March, 1908, and out of the 4 per cent loan issued in Paris in April, 1910, amounting to 175,150,000 *yen*.

At the same time 14,292,500 *yen*, which had been raised for the establishment of the tobacco monopoly by Law No. 14, March, 1904, was redeemed. Loans for the readjustment of exchequer bonds disappeared as they were displaced by the Imperial 5 per cent loan, Class B. Thus, with the exception of the Korean undertaking loan, floated in accordance with the Law No. 18, March, 1911, amounting to 30,000,000 *yen*, all the exchequer bonds disappeared in 1911. Until the settlement of the war expenses (October 31, 1907), however, the second 4 per cent sterling loan, amounting to 199,726,725 *yen*, and unredeemed exchequer bonds, amounting to 273,334,775 *yen*, existed side by side with the extraordinary military expenditures loans and 4 per cent sterling loan. Of the four sterling loans, the first and second 6 per cent sterling loans, amounting to 215,260,000 *yen*, were redeemed by the 5 per cent sterling loan, amounting to 224,549,000 *yen*, which was raised in accordance with Imperial Ordinance No. 23, March, 1907. The foreign loans, on account of the Russo-Japanese War existing at the present day, are the second 4 per cent sterling loan (for the conversion of exchequer bonds), the 5 per cent sterling loan and the first and second 4 per cent ster-

ling loans. Thus, the war loans, on account of the Russo-Japanese War, were modified in kind, in amount of flotations and in the distinction between domestic and foreign loans before the settlement of the war expenses in October, 1907.

RUSSO-JAPANESE WAR LOANS[1]

Former War Loans	Amount	Latter War Loans	Amount
	Yen		*Yen*
5% exchequer loan....	273,334,775	5% exchequer loan...	273,344,775
6% " " ...	199,726,725	4% sterling loan.....	244,075,000
Extraordinary military expenditure loan....	310,400,700	Extraordinary military expenditure loan ...	310,400,700
6% sterling loan.....	215,260,000	*5% sterling loan.....	224,549,000
4% " "	585,780,000	4% " "	585,780,000
Total.....	1,584,502,200	Total.....	1,638,149,475
Foreign loan.....	801,040,000	Foreign loan.....	1,054,404,000

Besides the above-mentioned loans for war and armament, there were many other public loans in the period from the Russo-Japanese War to the present day.

All these loans may be divided into: (*a*) financial public loans, (*b*) public loans with regard to the nationalization of railways, and (*c*) public loans with regard to the amalgamation and financing of the colonies. As for financial public loans there were issued the tobacco monopoly exchequer bonds, after 1904, amounting to 14,292,050 *yen*, consolidated loan for hereditary pension, after 1905, amounting to 441,500 *yen*, the Okinawaken Pension Bonds, after 1910, amounting to 1,639,800 *yen*, and the salt fields adjustment loans in 1911, amounting to 2,426,050 *yen*. The French loan in 1910, amounting to 175,150,000 *yen*, and the third 4 per cent sterling loan, amounting to 107,393,000 *yen*, were both floated for the conversion and readjustment of the domestic and foreign loans. As for the public loans for the nationalization of railways, there were public loans for the readjustment of the liabilities of old rail-

[1] In addition, there was an issue of a relief loan, 1910, amounting to 988,650 *yen*. As its object lay in the postbellum relief work, it may properly be regarded as an addition to the extraordinary military expenditures loan.

way companies, amounting after 1906 to 27,683,850 *yen*, the public loan for the buying-up of the railways after 1909, amounting to 476,318,750 *yen*, the amount which the government assumed of the liabilities of the old railway companies, amounting to 22,132,900 *yen* after 1906, the seal-fishers bonds, in 1912, amounting to 501,400 *yen*, the sterling loan on account of the liabilities in regard to the old railway company, in 1906, amounting to 13,668,000 *yen*, and the French exchequer bonds and sterling railway bonds, after 1913, amounting to 106,389,000 *yen*, which were raised for the construction and improvement of railways. As for the public loans with regard to colonies, there were the Korean Public Undertakings Loan in 1912, amounting to 1,000,000 *yen*, Public Loan granted by the former Korean Government to the former Dōshō, amounting to 116,825 *yen*, Onshi Loan Bonds granted to the former Koreans in 1912, amounting to 30,037,400 *yen*, and Chosen Public Works Exchequer Bonds in 1913, amounting to 30,000,000 *yen*. Besides these, there were no small amount of temporary loans. Such is the outline of our national loans from the Russo-Japanese War down to the present day.

CHAPTER VI

PRESENT AMOUNT OF PUBLIC LOANS

In order to discuss the financial position and the economic effects of war and armament loans, it is necessary to know the mode of flotation of our national loans as a whole and their present condition. The national loans as a whole are generally divided into ordinary public loans and floating loans or into foreign and domestic loans. Each kind of loan has had its peculiar mode of development, and the influence of each upon economic affairs is different one from another. Further, if we classify according to objects of flotation, public loans may be divided into loans for the reform of institutions, loans for adjustment of finance, loans for war and armament, loans for the encouragement of industries and colonial loans, etc. Unless, therefore, we classify the statistics according to these divisions, it is impossible for us to know the financial position of war and armament loans and the effects of general finance and business brought about by their flotation, redemption, readjustment, and interest payment. In short, the object of this chapter consists in summarizing the facts and statistics of the preceding chapters, thus clarifying the financial position of the war and armament loans and at the same time preparing the minds of the readers for the discussion of the economic effects in the following chapters.

Historical Statistics of National Debt

In stating the historical statistics of the total amount of national loans, we must first distinguish between statistics concerning the floated sum and statistics concerning the redeemed sum; and then we must state the unredeemed amount outstanding at the end of each fiscal year.

The amount floated resolves itself into the subscribed amounts and special issue amounts. By subscribed amounts is meant the amounts raised by general flotation to the public at large, while by special issue amounts is meant the amount raised by issue of loans, in which delivery is made directly to the person entitled, or in which special issue is made to the Deposit Section or other special funds, or in which a new loan is delivered in conversion of an old loan. We must distinguish these two, because their influences on the contraction of currency and slackness of the money market are by no means identical. Floated amounts may also be subdivided into domestic and foreign flotations, and this distinction is necessary inasmuch as their respective influences on finance and business are different.

Lastly, the redeemed amounts must be subdivided into those redeemed out of the general revenue, and those redeemed out of the public loans fund, floated for the sake of conversion. It was frequently the case that great amounts of redemption and great amounts of fresh subscriptions took place nearly simultaneously. The distinction between those redeemed out of the general revenue, and those redeemed out of the public loans fund can not be said to be very clear; but their respective influences are not the same, because the former kind of redemption greatly diminishes the total sum of issue, and gives rise to slackness in the money market, while the latter kind of redemption increases the total amount of public loans, and, except when domestic loans are converted into foreign loans, it has not the effect of slackening the money market.

The following table[1] shows the amounts of ordinary and floating loans at the end of each year:

[1] Based on *Reference Book Concerning Monetary Affairs, National Loans Statistics*, and *Imperial Statistical Year Book*. The amounts of floating loans are the sum total of government paper money, various temporary loans, exchequer bonds, and railway bonds. Ordinary loans are generally funded loans.

Prior to 1885, the system of fiscal years was not yet firmly established, and the figures are shown as those of each year end. After 1886, the present system of fiscal years was adopted. Per capita amount is not necessarily in ratio to the total amount, first because it denotes the figures at each year end, and secondly because paper money was excluded from the calculations.

LOANS BY YEARS

Year [a]	Ordinary Loans	Floating Loans	Total	Per Capita
	Yen	*Yen*	*Yen*	*Yen*
1868	....	24,037,389	24,037,389	....
1869	....	50,090,867	50,090,867	....
1870	4,880,000	55,500,000	60,380,000	0.147
1871	4,880,000	60,272,000	65,152,000	0.147
1872	28,056,096	68,400,000	96,456,096	0.843
1873	40,640,841	78,381,013	119,021,854	1.209
1874	46,919,637	91,902,000	138,821,637	1.380
1875	55,810,192	99,071,869	154,882,061	1.625
1876	53,927,344	105,147,582	159,074,926	1.557
1877	226,854,389	115,283,091	342,137,480	6.772
1878	237,364,166	154,418,592	391,782,758	7.053
1879	235,198,759	145,308,921	380,507,680	6.963
1880	234,338,231	139,940,485	374,278,716	6.858
1881	231,127,541	133,905,194	365,032,735	6.707
1882	225,511,284	124,369,014	349,880,298	6.497
1883	217,662,889	107,999,277	325,662,166	6.079
1884	230,334,914	103,380,233	333,715,147	6.387
1885	231,255,987	98,345,096	329,601,083	6.457
1886	230,681,580	76,395,945	307,077,525	6.931
1887	237,694,192	63,565,988	301,260,180	7.033
1888	241,438,310	55,468,455	296,906,765	6.707
1889	245,445,566	50,065,256	295,510,822	6.496
1890	243,230,655	63,370,072	306,600,727	6.804
1891	241,743,709	58,873,789	300,617,498	6.744
1892	235,126,272	51,200,044	286,326,316	6.762
1893	235,814,851	47,704,773	283,519,624	6.446
1894	263,807,284	65,520,517	329,327,801	6.774
1895	341,759,995	78,579,236	420,339,231	9.276
1896	357,335,134	62,045,082	419,380,216	10.001
1897	399,245,928	28,995,374	428,241,302	9.024
1898	391,253,123	27,112,265	418,365,388	8.940
1899	480,967,249	27,399,453	508,366,702	10.734
1900	486,460,195	23,728,883	510,189,078	11.086
1901	502,226,140	67,891,816	570,117,956	11.911
1902	530,180,810	55,983,447	586,164,257	12.185
1903	539,569,751	42,514,359	582,084,110	12.017
1904	969,288,139	116,628,616	1,085,916,755	22.261
1905	1,850,381,121	243,200,000	2,093,581,121	44.640
1906	2,420,256,082	130,415,333	2,550,671,415	48.247
1907	2,254,346,452	22,000,000	2,276,346,452	47.302
1908	2,228,306,822	27,505,095	2,255,811,917	46.439
1909	2,582,798,363	68,435,291	2,651,233,654	53.804
1910	2,650,395,115	129,986,100	2,780,381,215	55.007
1911	2,553,704,973	188,474,946	2,742,179,919	54.022
1912	2,493,969,745	249,600,969	2,743,570,714	51.796

[a] Up to 1885, the figures are for the calendar year ending with the date given; from 1886 on, the fiscal year ending with the date given.

The table on the next page shows how our national debts, which increased, as above stated, both in the total amount and per capita amount, were floated, issued, and redeemed.

FLOTATION AND REDEMPTION OF NATIONAL DEBTS[1]

Year[a]	Domestic Flotation	Foreign Flotation	Amount Issued	Total	Redemption of Principal
	Yen	*Yen*	*Yen*	*Yen*	*Yen*
The 3d....	....	4,880,000	....	4,880,000	....
The 4th...	....	....	....	....	....
The 5th...	....	11,712,000	23,390,900	35,102,900	219,454
The 6th...	....	....	1,580,200	1,580,200	707,454
The 7th...	....	....	6,986,200	6,986,200	707,454
The 8th...	....	....	....	....	....
1875.....	....	....	10,230,550	10,230,550	1,339,995
1876.....	....	....	7,400	7,400	1,890,249
1877.....	....	....	334,050	334,050	975,855
1878.....	12,500,000	....	173,221,895	185,721,895	3,475,274
1879.....	....	....	291,627	291,627	3,575,757
1880.....	....	....	3,044,525	3,044,525	3,796,854
1881.....	....	....	821,915	821,915	2,949,289
1882.....	....	....	513,855	513,855	7,864,207
1883.....	15,000,000	....	1,787,650	16,787,650	5,425,294
1884.....	5,000,000	....	3,995	5,003,995	4,290,101
1885.....	....	....	6,515,635	6,515,635	5,089,752
1886.....	21,000,000	....	607,240	21,607,240	21,022,267
1887.....	2,000,000	....	27,838,790	29,838,790	26,457,542
1888.....	11,000,000	....	22,395,270	33,395,270	31,198,368
1889.....	....	....	19,001,295	19,001,295	15,885,758
1890.....	....	....	3,349,890	3,349,890	5,361,401
1891.....	4,913,300	....	14,549,150	19,462,450	24,157,111
1892.....	10,000,000	....	30,960,400	40,960,400	49,596,238
1893.....	2,000,000	....	17,842,950	19,842,950	13,318,870
1894.....	79,996,500	....	2,000,000	81,996,500	4,108,798
1895.....	10,000,000	....	33,047,500	43,047,500	4,990,059
1896.....	....	....	13,695,000	13,695,000	8,120,310
1897.....	....	....	49,157,900	49,157,900	7,288,107
1898.....	....	....	263,750	263,750	8,215,555
1899.....	....	97,630,000	3,729,000	101,359,000	11,644,874
1900.....	....	....	15,272,650	15,272,650	9,775,705
1901.....	....	....	26,002,650	26,002,650	10,240,705
1902.....	....	....	41,498,150	41,498,150	13,795,880
1903.....	96,977,250	....	12,000,000	108,977,250	3,218,290
1904.....	276,147,975	800,566,000	17,404,835	1,094,118,810	219,455
1905.....	299,607,750	244,075,000	8,869,150	552,551,900	40,472,173
1906.....	100	....	132,266,650	132,266,750	176,933,122
1907.....	100	224,549,000	88,848,890	313,397,990	247,296,460
1908.....	150	....	72,081,014	72,081,164	97,297,030
1909.....	....	....	487,211,740	487,211,740	130,134,009
1910.....	....	....	521,370,575	521,370,575	453,779,773
1911.....	....	....	5,541,700	5,541,700	102,231,843
1912.....	....	....	1,100,000	1,100,000	60,835,228
1913.....	....	77,400,000	30,798,250	108,198,250	57,047,796

[a] Up to the eighth year, the figures are for the fiscal period ending with the date given; from 1875 on, the fiscal year ending with the date given

[1] Based on an investigation of the Department of Finance. The amount redeemed assignable to the eighth period is not ascertainable, on account of poor arrangement of the materials, and has been included either in the seventh period or in the fiscal year 1875. The table does not include exchequer bonds, railway bonds, and temporary loans.

The following table shows the amounts redeemed of the domestic and foreign loans respectively at each year end, or at the end of each fiscal year:

REDEMPTION OF LOANS[1]

Year [a]	Domestic Loans	Foreign Loans	Total
	Yen	*Yen*	*Yen*
1870	....	4,880,000	4,880,000
1871	....	4,880,000	4,880,000
1872	23,176,096	4,880,000	28,056,096
1873	24,536,841	16,104,000	40,640,841
1874	31,303,637	15,616,000	46,919,637
1875	40,916,432	14,893,760	55,810,192
1876	39,771,928	14,155,416	53,927,344
1877	213,455,373	13,399,016	226,854,389
1878	224,740,094	12,624,072	237,364,166
1879	223,369,639	11,829,120	235,198,759
1880	223,325,535	11,012,696	234,338,231
1881	220,954,205	10,173,336	231,127,541
1882	216,202,196	9,309,088	225,511,284
1883	208,756,401	8,906,488	217,662,889
1884	221,385,842	8,476,072	229,861,914
1885	223,240,587	8,015,400	231,255,987
1886	223,159,548	7,522,032	230,681,580
1887	230,699,688	6,994,504	237,694,192
1888	229,686,718	6,430,376	236,117,094
1889	238,400,752	5,826,232	244,226,984
1890	232,868,430	5,188,120	238,056,550
1891	237,255,085	4,488,624	241,743,709
1892	231,377,456	3,748,816	235,126,272
1893	232,857,571	2,957,280	235,814,851
1894	261,697,171	2,110,112	263,807,283
1895	340,556,587	1,203,408	341,759,995
1896	357,101,382	233,752	357,335,134
1897	399,245,928	....	399,245,928
1898	391,253,123	....	391,253,123
1899	480,967,249	....	480,967,249
1900	388,834,194	97,630,000	486,464,194
1901	404,596,140	97,630,000	502,226,140
1902	432,550,810	97,630,000	530,180,810
1903	441,939,751	97,630,000	539,569,751
1904	656,872,139	312,416,000	969,288,139
1905	879,970,810	970,410,310	1,850,381,121
1906	1,049,546,602	1,370,709,579	2,420,256,182
1907	1,088,645,228	1,165,701,224	2,254,346,452
1908	1,062,605,598	1,165,701,224	2,228,306,822
1909	1,417,128,864	1,165,675,449	2,582,804,313
1910	1,203,179,399	1,447,215,715	2,650,395,115
1911	1,116,216,270	1,437,449,203	2,553,665,473
1912	1,066,286,840	1,427,682,905	2,493,969,745

[a] Up to 1885, the figures are for the calendar year ending with the date given; from 1886 on, the fiscal year ending with the date given.

[1] This table is concerned merely with ordinary loans.

The above tables show that our national loans increased with every war, and especially in connection with the Russo-Japanese War, after which our finance changed from domestic loan finance to foreign loan finance.

As we have finished the historical statistics of the total sum of our national debts, we enter upon the minute observation of the total sum of national debts at the present time.

Outstanding National Debt

The following table shows the details of all the national debts outstanding at the present time:

Details of National Debt

A.—Domestic Loans

Kinds	Date of Flotation	Amount of Flotation	Amount Outstanding	Date of Redemption
		Yen	*Yen*	
Old Public Loan (without interest)	1872	10,972,725	1,975,091	1921
Imperial Japanese Government 5% Loan, 51,427,400 *yen* outstanding, divided as follows:				
Railway Loan	From 1893	64,866,050	5,588,900	1961
Hokkaido Railway Loan	" 1898	4,403,650	811,150	1961
Public Undertaking Loan	" 1897	88,827,800	10,831,400	1961
Consolidated Loan for Hereditary Pension	" 1905	441,500	164,250	1966
Taiwan Public Undertakings Loan	" 1900	34,508,535	385,650	1960
Loan for Consolidating the Debts of the Purchased Railway Co.	" 1906	27,683,850	27,683,850	1963
Okinawa Prefecture Pension Bonds	" 1910	1,639,800	1,640,550	1964
Public Loan Bonds issued for the relief of the Japanese who suffered loss during the late war	" 1910	988,650	979,350	1964
Public Loan for the Readjustment of the Salt Fields	" 1911	2,426,050	2,425,750	1964
Bonds to Sealers	1912	927,600	916,550	1966
5% Nationalization of Railway Loan (Mark ko)	" 1908	504,002,600	467,043,650	1963
5% Extraordinary Military Expenditures Loan (Special)	" 1906	310,400,700	239,885,850	1935
5% Loan (Onshi)	" 1910	29,826,000	29,826,000	1964
Debentures of the Purchased Railway Companies	Sept., 1907	22,132,900	100,000	1913 (Nov.)
4% Loan	From 1910	276,028,850	276,028,850	1969
Total		1,380,077,260	1,066,286,841	

B.—Foreign Loans

Kinds	Date of Flotation	Amount of Flotation	Amount Outstanding	Date of Redemption
		Yen	*Yen*	
4% Sterling Loan of 1st issue, 97,630,000 *yen* floated and outstanding, divided as follows:				
Railway Loan	1899	17,577,750	17,577,750	1953
Hokkaido Railway Loan	1899	2,000,000	2,000,000	1953
Public Undertaking Loan	1899	78,052,250	78,052,250	1953
4% Sterling Loan of 2d issue	1905	244,075,000	244,072,266	Jan., 1931
4% Sterling Loan of 3d issue	1910	107,393,000	107,393,000	June, 1970
4½% Sterling Loan of 1st issue	1905	292,890,000	283,106,498	Feb., 1925
4½% Sterling Loan of 2d issue	1905	292,890,000	283,119,580	July, 1925
5% Sterling Loan	1907	224,549,000	224,545,876	Mar., 1947
4% Loan (issued in Paris)	1910	175,150,000	174,147,485	May, 1970
Debentures of the Purchased Railway Co.	1906 and 1907	13,668,200	13,668,200	1921 and 1926
Total		1,448,245,200	1,427,682,905	

C.—Floating Loans

Kinds	Date of Flotation	Amount of Flotation	Amount Outstanding	Date of Redemption
		Yen	*Yen*	
Railway Bonds and Debentures (daily interest)	From 1911	79,289,000	79,289,000	1915 (Mar.)
Treasury Bonds (daily interest)	Each year	....	35,000,000	One year
Temporary Loans, 135,311,969 *yen* floated and outstanding, divided as follows:				
Temporary Loan for the Redemption of Paper Money (without interest)	1890	22,000,000	22,000,000	1912
Temporary Loan (daily interest)	Each year	....	11,530,000	One year
Taiwan Undertakings Expenditure Changed Temporary Loan (6%)	Each year	....	5,266,743	3 years
Temporary Loan for the Redemption of Military Bills (without interest)	1906	15,253,358	1,979,517	No date
Railway Work Expenditure Temporary Loan (4¼%)	From 1909	....	33,577,113	Each 5 years
Korean Undertaking Fund Temporary Loan (6½%)	" 1910	20,963,920	17,963,920	"
Imperial Steel Works Fund Temporary Loan (4⅛%)	" 1911	4,000,000	2,000,000	"
Chosen Undertaking Expenditure Temporary Loan (5%)	" 1911	2,094,677	2,094,677	3 years
Chosen Undertaking Expenditure Changed Temporary Loan (6%)	From 1911	24,900,000	24,900,000	3 years each
River Work Fund Temporary Loan (4½%)	" 1912	14,000,000	14,000,000	5 years
Total		182,500,955	249,600,970	

SUMMARY OF AMOUNT OUTSTANDING

	Yen
A—Domestic Loan	1,066,286,841
B—Foreign Loan	1,427,682,905
C—Floating Loan	249,600,969
Total	2,743,570,715

The following table shows the amount and position of war and armament loans viewed from the object of their flotation:

	Yen	*Yen*
A.—*Loans for Reorganization of Institutions:*		
Old Public Loan	1,975,090	
Consolidated Loan for Hereditary Pension	164,250	
Okinawa Prefecture Pension Bonds	1,640,550	
		3,779,890
B.—*Loans for War:*		
4½% Sterling Loan of 1st issue	566,226,078	
4% Sterling Loan of 2d issue	244,072,266	
5% Extraordinary Military Expenditure Loan	239,885,850	
5% Sterling Loan	224,545,876	
Public Loan issued for the relief of the peoples who suffered loss during the late war	979,350	
4% Loan (Part I)	113,398,950	
4% Loan issued in Paris (Part I)	63,810,875	
Temporary Loan for Redemption of Military Bills	1,979,517	
		1,454,898,762
C.—*Loans for Expansion of Armament:*		
4% Sterling Loan of 1st issue, 1899 (Public Undertaking Loan, Part I)	54,947,100	
4% Loan (Part II)	8,296,700	
		63,243,800
D.—*Loans for Railway Construction and Public Works:*		
Railway Loan (Domestic and Foreign)	23,166,650	
Hokkaido Railway Loan (Domestic and Foreign)	2,811,150	
Public Undertaking Loan (Domestic Loan and Foreign Loan, Part II)	33,936,550	
4% Loan (Part III)	98,462,050	
5% Nationalization of Railway Loan	467,043,650	
Debentures of the Purchased Railway Companies (Domestic and Foreign)	13,768,200	
Loans for Consolidating the Debts of the Purchased Railway Co.	27,683,850	
Railway Bonds and Debentures	79,289,000	
Railway Work Expenditure Temporary Loan	33,577,113	
The Imperial Steel Works Fund Temporary Loan	2,000,000	
The River Work Fund Temporary Loan	14,000,000	
Bonds to Sealers	916,550	
		796,654,763

E.—*Loans for Exploitation of New Territory:*		
Taiwan Public Undertaking Loan	385,650	
Taiwan Undertaking Expenditure Temporary Loan	5,266,743	
Korean Undertaking Fund Temporary Loan	17,963,920	
Chosen Undertaking Expenditure Changed Temporary Loan	24,900,000	
Chosen Undertaking Expenditure Temporary Loan	2,094,677	
5% Loan (Onshi)	29,826,000	
		80,436,990
F.—*Loans for Financial Adjustment and Treasury Bonds:*		
Public Loan for the Readjustment of the Salt Field	2,425,750	
4% Sterling Loan of 3d issue (Part II)	107,393,000	
4% Loan issued in Paris (Part II)	110,336,610	
4% Loan (Part IV)	55,871,150	
Temporary Loan for the Redemption of Paper Money	22,000,000	
Temporary Loan (daily interest)	11,530,000	
Treasury Bonds	35,000,000	
		344,556,510
Total		2,743,570,715

This classification differs from the classification adopted in the Financial Department's annual statistical report, published since 1901, with regard to national loans. In this annual report conversion loans are regarded as financial readjustment loans and unfunded loans excluded. In these statistics, on the contrary, any loan that can be looked upon as a loan for the conversion of war loans is regarded as war or armament loan, and also unfunded loans are included. The reader is referred to the note in the following table for particulars.

War and Armament Loans

The figures with regard to war and armament loans are different, according to the views taken. We have made a special investigation on the basis of the above classification, which has convinced us of the approximate truth of the following calculation:

TABLE I.—WAR AND ARMAMENT LOANS[1]

Year[a]	War Loan	Armament Loan	Total	Total of National Loans
	Yen		*Yen*	*Yen*
1868	24,037,386		24,037,386	24,037,386
1869	50,090,867		50,090,867	50,090,867
1870	55,500,000		55,500,000	60,380,000
1871	55,500,000		55,500,000	65,152,000
1872	55,499,998		55,499,998	96,456,096
1873	68,546,871		68,546,871	119,021,854
1874	89,059,323		89,059,323	138,821,637
1875	91,275,869		91,275,869	154,882,061
1876	93,323,011		93,323,011	159,074,926
1877	103,321,764		103,321,764	342,137,480
1878	134,800,455		134,800,455	391,782,680
1879	129,190,804		129,190,804	380,507,680
1880	123,412,369		123,412,369	374,278,716
1881	120,905,194		120,905,194	365,032,735
1882	120,368,856		120,368,856	349,880,298
1883	107,999,277		107,999,277	325,662,166
1884	103,380,232		103,380,232	333,715,147
1885	98,345,096		98,345,096	329,601,083
1886	76,395,945	5,000,000	81,395,945	307,795,196
1887	63,565,988	11,000,000	74,565,988	303,796,276
1888	55,468,455	13,000,000	68,468,455	296,906,376
1889	50,065,256	17,000,000	67,065,256	295,510,821
1890	41,370,072	17,000,000	58,370,072	306,600,727
1891	36,873,789	16,990,000	53,863,789	300,617,498
1892	29,200,044	16,980,000	46,180,044	286,327,316
1893	25,704,773	16,970,000	42,674,773	283,519,624
1894	73,621,747	16,960,000	90,581,747	329,327,801
1895	165,623,236	16,950,000	182,573,236	420,339,231
1896	161,769,082	15,006,000	176,775,082	419,380,217
1897	131,567,374	26,048,636	157,616,010	428,241,302
1898	129,948,015	51,302,267	181,250,282	418,365,389
1899	118,775,903	69,393,922	188,169,825	508,366,702
1900	118,306,333	78,984,267	197,290,600	510,189,078
1901	133,672,866	82,848,270	216,521,136	570,117,956
1902	117,184,397	84,908,800	202,093,197	586,164,258
1903	121,913,939	90,199,200	212,113,139	582,084,110
1904	572,666,170	90,882,400	663,488,570	1,085,916,757
1905	1,487,894,074	90,605,650	1,578,499,724	2,093,581,121
1906	1,980,176,112	90,605,650	2,070,781,762	2,550,671,415
1907	1,741,810,324	89,485,400	1,831,295,724	2,276,346,452
1908	1,678,667,330	89,485,400	1,768,152,730	2,255,811,917
1909	1,580,448,010	85,983,500	1,666,431,510	2,651,233,654
1910	1,603,668,451	63,243,800	1,666,912,251	2,780,381,215
1911	1,514,309,047	63,243,800	1,577,552,847	2,742,179,919
1912	1,454,898,762	63,243,800	1,518,142,562	2,743,570,714

[a] Up to 1885, the figures are for the calendar year ending with the date given; from 1886 on, the fiscal year ending with the date given.

[1] The war loans in this table include "Dajokwansatsu," "Mimbushosatsu," New Paper Money and other government paper money, temporary loan for the

The armament loans in this table include navy loan, the part of public undertakings loan which was appropriated to national defense expenditure, temporary loan for the construction of warships, and a small part of 4 per cent domestic loan.

TABLE II.—WAR AND ARMAMENT LOANS[1]

Fiscal Year	War Loan	Armament Loan	Total
	Yen	*Yen*	*Yen*
1901	116,581,450	78,073,600	194,655,050
1902	115,641,150	84,908,800	200,549,950
1903	212,618,500	87,699,200	300,317,700
1904	996,442,425	88,382,400	1,084,824,825
1905	1,349,284,950	90,605,650	1,439,890,600
1906	1,499,920,779	90,605,650	1,590,526,429
1907	1,273,186,323	89,485,400	1,362,671,723
1908	1,176,210,848	89,485,400	1,265,696,248
1909	1,079,400,672	85,983,500	1,165,384,172
1910	925,926,619	54,947,100	980,873,719
1911	836,932,277	54,947,100	891,879,377
1912	807,091,277	54,947,100	862,038,377

LOANS FOR THE ENCOURAGEMENT OF INDUSTRIES

The amount of the various kinds of public loans is shown in the annual statistical report of the Finance Department with regard to national loans. A further special investigation was made on the basis of this authority, which is shown in the table on the next page.

suppression of rebellion, temporary loan for military expenditure, temporary loan concerning Chinese affairs, exchequer bonds, extraordinary military expenditures loan, temporary loan for extraordinary military expenditure, temporary loan for the redemption of military bills, exchequer bonds consolidation loan, 6 per cent sterling loan, 4 per cent sterling loan, the second 4 per cent sterling loan, 5 per cent sterling loan, a part of 4 per cent French loan, a part of 4 per cent domestic loan (the part which was floated for the conversion of military loan) and relief loan.

[1] Based on *Financial Department Yearly Statistical Report Concerning National Loan*, and the classification is that adopted by the Financial Department. The table does not include various temporary loans and treasury bills. The war loans include temporary loan for the suppression of the rebellion, war loan, exchequer bonds, 6 per cent sterling loan, 4½ per cent sterling loan (excluding those for the adjustment of finance), extraordinary military expenditures loan, 5 per cent loan (excluding loans for the encouragement of industries, reform of institutions, adjustment of finance, governance of new territories), and 5 per cent Class B. They do not include second 4 per cent sterling loan, 5 per cent sterling loan, 4 per cent domestic loan (a part), 4 per cent French loan (a part), and temporary loan for the redemption of military bills. The armament loans do not include the fund for the conversion of navy loan.

TABLE SHOWING THE FIGURES OF RAILWAY LOAN AND OTHER PUBLIC UNDERTAKINGS LOANS[1]

Year[a]	Railway Loan	Other Public Undertakings Loans	Total
	Yen	*Yen*	*Yen*
1870	4,880,000	....	4,880,000
1871	4,880,000	....	4,880,000
1872	4,880,000	....	4,880,000
1873	4,392,000	....	4,392,000
1874	3,904,000	....	3,904,000
1875	3,416,000	....	3,416,000
1876	2,928,000	....	2,928,000
1877	2,440,000	....	2,440,000
1878	1,952,000	12,500,000	14,452,000
1879	1,464,000	12,500,000	13,964,000
1880	976,000	12,234,050	13,210,050
1881	488,000	11,949,650	12,437,650
1882	....	11,649,050	11,649,050
1883	....	11,321,950	11,321,950
1884	15,000,000	10,996,250	25,996,250
1885	20,000,000	10,760,350	30,760,350
1886	20,000,000	10,740,350	30,740,350
1887	20,000,000	10,730,350	30,730,350
1888	19,990,000	10,710,200	30,700,200
1889	21,990,000	10,710,200	32,700,200
1890	21,980,000	10,700,200	32,680,200
1891	15,922,900	10,680,200	26,603,100
1892	2,000,000	....	2,000,000
1893	4,000,000	....	4,000,000
1894	4,000,000	....	4,000,000
1895	6,000,000	....	6,000,000
1896	10,000,000	3,000,000	13,000,000
1897	18,807,350	21,237,964	40,045,314
1898	18,907,350	....	18,907,350
1899	37,462,650	58,582,022	96,044,672
1900	37,462,650	52,493,633	89,956,283
1901	75,632,200	27,058,000	102,690,200
1902	81,667,050	30,976,150	112,643,200
1903	82,775,650	31,868,950	114,644,600
1904	85,344,950	31,943,050	117,288,000
1905	83,748,500	33,090,550	116,839,050
1906	100,503,700	33,090,550	133,594,250
1907	148,489,730	38,419,550	186,909,280
1908	185,236,730	38,419,550	223,656,280
1909	579,871,050	37,939,450	617,810,500
1910	525,352,250	19,494,650	544,846,900
1911	519,289,550	19,494,650	538,784,200
1912	519,173,000	20,412,200	539,586,200

[a] Up to 1885, the figures are for the calendar year ending with the date given; from 1886 on, the fiscal year ending with the date given.

[1] Prior to 1900, there was no yearly Statistical Report concerning national loans. Therefore, the foreign 9 per cent loan, Nakasendo railway loan, railway replenishment loan, railway loan, undertakings loan (excluding national defense loan), and Hokkaido railway loan have been taken into account. After 1901 the figures are

Besides the war and armament loans and loans for the encouragement of industries, there are loans for the reform of institutions, the loans for the readjustment of finance, and colonial loans. Of all, loans connected with military affairs constitute the overwhelming majority, while productive loans are insignificant. At the end of the fiscal year 1913 the majority of the total sum of public loans are military loans, and the remaining minority is divided about equally into productive public loans and administrative and financial loans.

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based on *Annual Statistical Report*, etc. Other undertakings loans include loans for harbor construction, drainage, road construction, mining, steel foundry, extension of telephone and prohibition of seal shooting. As a part of the 4 per cent domestic loan, and the floating loans were not taken into account, the figures do not coincide with those in a table inserted elsewhere.

CHAPTER VII

CONCLUSION

We sum up below what has been said about the history of war and armament loans and about the fluctuations of the total amount of national debts. The war and armament public loans commenced with government paper moneys such as "Dajokwansatsu," "Mimbushosatsu," New Paper Money, etc., all of which was issued in connection with the Restoration. When in 1877 there was an increased issue of paper money and temporary loans for the suppression of the Satsuma Rebellion, the total sum of the national debts suddenly rose to 342,000,000 *yen* in 1877, and 391,000,000 *yen* in 1878. Though there was a navy loan in 1886, the total sum of national debts did not increase, but it gradually decreased till 1894. Owing to a great sum of war loans and temporary loans in connection with the Sino-Japanese War, the total sum at the end of the fiscal year 1895 was above 420,000,000 *yen*. After the war there was an increase of railway loans and loans for other kinds of undertakings, and though the armament expenditure was disbursed out of the indemnity fund, the deficit was covered by undertakings loans. Thus, at the end of the fiscal year 1899, the total sum of public loans was a little above 508,000,000 *yen*. In 1900 the Boxer Uprisings occurred in North China, which gave rise to the North China Affair Temporary Loans, and there was also an increased issue of undertakings loans. And yet the total sum of national loans at the end of the fiscal year 1902 still remained little above 586,000,000 *yen*. When in 1904 war broke out between Japan and Russia, the total sum suddenly rose to 1,085,000,000 *yen*, which was wholly due to the sudden issue of exchequer bonds, temporary loans for the construction of warships, the extraordinary military expenditures loan, the 6 per cent sterling loan, etc. In the fiscal year 1905 there was an increase of exchequer bonds, of temporary loans, and 4.5 per cent sterling public

loan, and a second 4 per cent sterling loan was issued, thus raising the total to 2,000,000,000 *yen*. In the following fiscal year, 1906, besides the continued flotation of the second 4 per cent sterling loan, there were issues of the extraordinary military expenditures loan, and the 5 per cent sterling loan, the total sum showing 2,550,000,000 *yen*. After this year, though there were issues of public loans for buying up railways and other auxiliary readjustment loans, the total sum of national debts decreased. After the fiscal year of 1909, owing to the readjustment by conversion into lower interest loans, the total sum increased. The conversion was affected by an Imperial 4 per cent loan, the third 4 per cent sterling loan, and the 4 per cent French loan. It is true that these were not used for the sole purpose of converting war and armament loans, but at least one-half of these loans converted military loans, navy loans, the remainder of exchequer bonds, and extraordinary military expenditures loans. Consequently the total amount of public debts at the end of the fiscal year 1909 was a little above 2,650,000,000 *yen*, and in the fiscal year 1910 it stood at 2,780,000,000 *yen*. Though there was a slight falling off after this year, still in the fiscal year 1912 the sum total showed 2,743,000,000 *yen*. Of this sum, what can be regarded as war and armament loans amount to about 1,518,000,000 *yen*, *i.e.*, 55 per cent of the total amount.

The total amount of national loans may be divided into two kinds: (1) unfunded loans and (2) ordinary loans.

Roughly speaking, unfunded loans showed the biggest figures during a period of ten years before and after the Satsuma Rebellion, during a period of three years before and after the Sino-Japanese War, during the period of three years following the Russo-Japanese War, and during the three years following the conversion of 1910. The increased issue of paper moneys and convertible bank notes gave rise to the expansion of currency.

Ordinary loans may be divided into domestic and foreign loans. In 1872 foreign loans equalled 488,000,000 *yen* against domestic loans amounting to 23,000,000 *yen*. In 1877 foreign loans showed 13,000,000 *yen* against domestic loans amount-

ing to 210,000,000 *yen*. In 1887 foreign loans fell off to 6,900,000 *yen* against domestic loans amounting to 230,000,000 *yen*. In 1897 there was no foreign loan, whereas there were domestic loans amounting to 399,000,000 *yen*. After this date there was only a small sum of foreign loans. In 1902 the foreign loans amounted only to 97,000,000 *yen* against domestic loans amounting to 432,000,000 *yen*.

The Russo-Japanese War brought about a great increase in foreign loans. In 1907 foreign loans amounted to 1,165,000,000 *yen* against domestic loans amounting to 1,088,000,000 *yen*. After this year, foreign loans showed even bigger figures than domestic loans. At the end of the fiscal year 1912 the domestic loan fell off to 1,066,000,000 *yen*, while the foreign loan increased to 1,427,000,000 *yen*. Domestic loans had generally the tendency of making the money market tight, while on the contrary, foreign loans made the money market slack in the first place, and then brought about the rise of prices and interest.

The greater part of the foreign loans consisted of war and armament loans. Of 1,427,000,000 *yen*, which was the total sum at the end of the fiscal year 1912, nearly 1,153,000,000 *yen* belongs to war and armament loans or their conversion loans, the remaining sum being composed of the greater part of the first 4 per cent sterling loan, the third 4 per cent sterling loan, the greater part of the 4 per cent French loan, and the loans for nationalization of railways. If we add to this sum more than one-half of the domestic loans, such as extraordinary military expenditures loans, the relief loan, and the domestic 4 per cent loan, we get the total sum of war and armament loans amounting to 1,518,000,000 *yen*, which is 55 per cent of the total sum of our national debts.

It is significant that the total sum for the encouragement of industries amounts to 796,000,000 *yen*, only 29 per cent of the total sum of our national debts.

Further, we shall consider the redemption expenditure (interest and sinking fund). The total sum of interest payable in the fiscal year 1912 was 114,000,000 *yen*, of which interest on domestic loans was 52,000,000 *yen*, while interest on foreign

loans showed the big sum of 62,000,000 *yen*. In the same fiscal year the principal annually to be redeemed was 68,000,000 *yen*, of which the redemption of domestic loans was 51,000,000 *yen*, while that of foreign loans was 9,760,000 *yen*.

It is impossible to know the exact figures of the sinking fund and interest of the war and armament loans in the above fiscal year. But the amount of war and armament loans figured 1,518,000,000 *yen*. If we fix the average rate of interest at 4.25 per cent per annum, the interest would be 64,000,000 *yen*. If we add to this amount about 10,000,000 *yen*, which is inferred to be the annual amount of the principal redeemed, the total would be 74,000,000 *yen*. The estimate generally accepted with regard to the military burdens of our people must be subjected to some modifications. Generally the military burden of our nation is calculated to be about 33 per cent of the total outlay. This calculation is made by taking into consideration only the ordinary and extraordinary expenses of the military and naval department of the annual account, and excluding what ought to be taken into account. The general account in the fiscal year 1912 shows the following figures:

	Yen	*Yen*
Army expenditure	95,956,980	
Navy expenditure	93,810,305	
		189,767,285
Pension to military men and their families	14,139,546	
Pension to naval men and their families	2,628,447	
Relief and aid to military and naval men	123,023	
The Order of the Golden Kite pension	8,570,400	
		25,461,416
Interest on war and armament loan	64,000,000	
Redemption of war and armament loan	10,000,000	
		74,000,000
Total		289,228,701

These expenditures amount to nearly 50 per cent of the total expenditures for that fiscal year, and constitute the true military burden of our nation, amounting to 57 *yen* per head. We have excluded from the above table expenditures with regard to the establishment and expansion of iron foundries, and of military and naval arsenals. In view of these figures, the military burden on the shoulders of our nation is anything but light.

PART II

ECONOMIC EFFECTS OF PUBLIC LOANS FOR WAR AND ARMAMENT

CHAPTER I

INTRODUCTION

By the economic effects of war and armament loans is meant the effects and influences due to the issue and redemption of war and armament loans. The economic effects brought about by the outlay of the funds obtained by these loans must be excluded inasmuch as they overlap the effects of the war and armament expenditures. The effects due to the issue and redemption of public loans are both direct or indirect. The indirect effects and influences sometimes have a great deal to do with the economic effects due to expenditures and to taxation. The present discussion, however, is confined to the direct and special indirect effects due to the issue and redemption of the loans.

The economic effects of war and armament loans include:

(1) Effects on finance,
(2) Effects on the money market,
(3) Effects of industries,
(4) Effects on society at large.

CHAPTER II

EFFECTS ON PUBLIC FINANCE

The financial effects of the issue and redemption of war and armament loans must be divided into effects upon state finance, and effects upon local finance. The former are the more conspicuous of the two. Moreover, they are, for the most part, direct effects, while the latter are chiefly indirect influences.

Effects upon State Finance

The effects upon the state finance of the issue and redemption of war and armament loans fall into four heads:

(1) The necessity of paper money adjustment which was brought about by the increased issue, and the consequent depreciation of various kinds of government paper money issued after the Restoration.

(2) The necessity of national loans consolidation occasioned by the increase of public borrowing.

(3) The increase of public loans charges which involves the interests and sinking funds.

(4) The increased issue of Treasury bills which attended the subscription and redemption of public loans.

These are the most important of the effects upon state finance.

Depreciation and Adjustment of Paper Money

The kinds of government paper money issued in connection with the Restoration and Satsuma Rebellion have already been described. The following table shows the total amount of those issues.

TOTAL ISSUE OF PAPER MONEY

Kinds	Amount	Period of Issue
Dajokwansatsu	48,000,000 *Ryo*	May, 1868, to December, 1869
Mimbushosatsu	7,500,000 "	September, 1869, " " "
Exchequer Exchange Notes	6,800,000 *Yen*	October, 1871, " " 1871
Colonial Exchange Notes	2,500,000 "	January, 1872, " March, 1872
New Paper Money	119,800,475 "	April, " " end of 1878
Reserve Paper Money	19,618,116 "	June, " " " "
Total	204,218,591 *Yen*	

Of the above, the new paper money was issued in order that the preceding four kinds of paper money might be superseded. The reserve paper money was issued as a substitute for the worn-out or injured new paper money. These kinds of paper money were by no means issued on a single occasion, but were issued several times during the above-mentioned periods. The amount of circulation of these kinds of government paper moneys outstanding at each year's end is estimated as follows:

PAPER MONEY IN CIRCULATION[1]

Year	Government Paper Money	Reserve Paper Money	Total
	Yen	*Yen*	*Yen*
1868	24,037,389	....	24,037,389
1869	50,090,867	....	50,090,867
1870	55,500,000	....	55,500,000
1871	60,272,000	....	60,272,000
1872	64,800,000	3,600,000	68,400,000
1873	77,281,014	1,100,000	78,381,014
1874	90,802,304	1,100,000	91,902,304
1875	91,283,869	7,788,000	99,071,869
1876	93,323,156	11,824,426	105,147,582
1877	93,835,764	11,961,327	105,797,091
1878	119,800,475	19,618,116	139,418,591
1879	114,190,804	16,118,116	130,308,920
1880	108,412,369	16,528,116	124,940,485
1881	105,905,194	13,000,000	118,905,194
1882	105,369,014	4,000,000	109,369,014

[1] (1) Reserve paper money was issued for the first time in June, 1872, and was withdrawn in January, 1883. (2) As there was a revision of the calendar in December, 1872, the figures at the end of 1872 are those of November 30, 1872.

These paper moneys were all inconvertible in fact. It was quite natural, therefore, that such a sudden inflation should have led to a decrease of the prices of public bonds in general, to say nothing of the paper moneys themselves. The government, therefore, was obliged to undertake readjustment and redemption.

Thereupon, the government set about the task of readjustment. The first step was taken by the promulgation of the National Bank Regulation of November, 1872, and the Kinsatsu Exchange Loan Bond Regulation of March, 1873. According to these regulations, six-tenths of the capital of the national banks was to be deposited with the Finance Department in government paper money, in exchange for which 6 per cent "Kinsatsu" exchange loan bonds were to be granted by the said department.

Further, on the security of these public bonds, bank notes of the same amount were to be delivered from the Finance Department to the national banks to be put into circulation. Four-tenths of the capital was to be accumulated in standard coins, viz., silver coins, as an exchange reserve for bank notes. Thus, inconvertible paper money that had been issued by the government was to be replaced by convertible bank notes issued by the national banks.

Owing to the frequent riots, armament expansions and the Satsuma Rebellion, all of which occurred during the period extending from 1873 to 1878, the issue of government paper money suddenly increased and finally exceeded the demand. In consequence, the balance of foreign trade continued unfavorable, and money steadily flowed out. Government paper money alone was in circulation in the domestic money market, and the national banks were unable to issue bank notes and experienced no small difficulties in carrying on their business. An amendment was therefore made to the National Bank Regulation in August, 1876, to the effect that eight-tenths of the capital should be deposited with the finance department in public bonds, bearing more than 4 per cent interest, and bank notes of the same amount were authorized

to be issued. Two tenths of the capital was to be accumulated in currency[1] as an exchange reserve.

Thus, this revision abolished the method adopted by the National Banks Regulation of 1872, concerning the adjustment of government paper money, and made the bank notes convertible into government paper money instead of into standard coins. To all intents and purposes, therefore, the revision consisted in establishing a system of increased issue of inconvertible paper money. As a result, national banks sprang into existence in rapid succession both in city and country alike, and the issue of bank notes knew no limit. The government, therefore, restricted the total amount of bank notes issue to about 34,000,000 *yen*, and expressly provided that the government should have the power of restricting the amount of capital of national banks at their organization and of limiting their issues of paper money.

At the end of 1879, however, the national banks which had been organized with the sanction of the government numbered 153 and the amount of bank notes issue rose to more than 34,000,000 *yen*.

PAPER MONEY AND BANK NOTES ISSUED[2]

Calendar Year	Government Paper Money Issued	Bank Notes Issued	Total
	Yen	*Yen*	*Yen*
1868	24,037,389	....	24,037,389
1869	26,053,477	....	26,053,477
1870	5,409,132	....	5,409,132
1871	4,772,000	....	4,772,000
1872	4,528,000	....	4,528,000
1873	13,333,859	1,362,210	14,696,069
1874	14,633,228	632,790	15,266,018
1875	2,443,296	....	2,443,296
1876	509,561	324,000	833,561
1877	513,934	11,608,751	12,122,685
1878	27,000,000	12,926,255	39,926,255
1879	1,717	7,767,008	7,768,725
1880	....	380,337	380,337
1881	....	....	....
1882	....	....	....
Total	123,235,597	35,001,351	158,236,948

[1] Includes government paper money.

[2] Based upon *A Summary of the Circumstances Attending the Reform of the Monetary System, 1897*.

CIRCULATION AND DIFFERENCE IN VALUE BETWEEN PAPER AND METAL CURRENCY[1]

Calendar Year	Amount of Circulation of Government Paper Money	Amount of Circulation of Bank Notes	Total	Amount of Specie Reserve	Price of Paper Currency per One *Yen* in Silver
	Yen	*Yen*	*Yen*	*Yen*	*Yen*
1868.....	24,037,389	....	24,037,389	....	0.748
1869.....	50,090,867	....	50,090,867	19,611	0.962
1870.....	55,500,000	....	55,500,000	39,873	1.033
1871.....	60,272,000	....	60,272,000	191,287	0.978
1872.....	68,400,000	....	68,400,000	14,709,800	0.018
1873.....	88,281,014	1,362,210	89,643,224	14,819,127	1.036
1874.....	101,802,304	1,995,000	103,797,304	18,483,983	1.036
1875.....	99,071,869	1,420,000	101,491,869	14,664,027	1.029
1876.....	105,147,582	1,744,000	106,891,582	15,171,224	0.989
1877.....	105,797,092	13,352,751	119,149,843	15,115,405	1.033
1878.....	139,418,592	26,279,006	165,697,598	17,837,729	1.099
1879.....	130,308,921	34,046,014	164,354,935	9,967,879	1.212
1880.....	124,940,485	34,426,351	159,366,836	7,166,819	1.477
1881.....	118,905,194	34,396,818	153,302,012	12,699,576	1.696
1882.....	109,369,014	34,385,349	143,754,363	16,730,267	1.571

Thus to the already excessive inflation of government paper money was further added the increased issue of bank notes. It was, therefore, only natural that an agio sprang up between metallic and paper currency. The preceding tables show the issue amount of government and bank paper money, their amount of circulation, the amount of specie reserve, together with the monthly average price of paper currency against metal (silver).

Thus the specie reserve was merely nominal, inasmuch as both government and bank paper money were virtually inconvertible. The amount of paper money went on increasing year after year, until at last its price suffered a great slump, as is shown in the preceding table. The government realized the necessity of readjusting the public loans and paper money as early as 1878, and drew up rough estimates concerning the redemption of public loans and paper money.

[1] Based upon *A Summary of the Circumstances Attending the Monetary System Reform, 1897*. The amount of circulation is the amount of issue minus the redeemed sum. The amount of specie is the amount of issue minus the amount melted down and minus the net sum of exportation.

A program was then established to accomplish the redemption work in twenty-eight years' time, extending from the fiscal year 1878 to the fiscal year 1905.

Upon this basis the estimated amount of paper money to be withdrawn in the financial year 1878 was raised from 500,000 *yen* to about 7,160,000 *yen*. This enormous increase is in part ascribable to the fact that 1,460,000 *yen* was subtracted from the estimated sum for the redemption of principal and interest of public loans for that fiscal year to be added to the paper money redemption. Furthermore, the surplus resulting from settlement of annual revenue for the fiscal years 1876 and 1877, amounting to 3,370,000 *yen*, and the surplus resulting from the settlement of expenditures with regard to the Satsuma Rebellion, amounting to 440,000 *yen*, and other disbursements out of the reserve fund of the national Treasury, amounting to over 1,380,000 *yen*, were all appropriated to paper money redemption.

In consequence, from 1879 silver coin rose steadily against paper money. Then the government founded in Yokohama the Foreign Silver Exchange and the Yokohama Specie Bank, and charged them with the sale of silver coins. Besides this, the government sold out silver coins from the Treasury to the market through the First and Second National Banks and the Mitsui Bank. The object of these expedients was to put a check on the appreciation of silver coins. Realizing, however, the fruitlessness of petty manipulations, the government at last decided to readjust it through a direct measure. By Notification No. 40 of the Dajokwan, September, 1880, the *Sake* Manufacture Tax Law was revised, and the increased receipt thus obtained was appropriated to the redemption of paper money. By Notification No. 48 of Dajokwan, November, 1880, the rate of the land surtax (one of the items of local taxation) was raised and at the same time added to the items of expenditure from local taxation, thus decreasing the local expenditures to be defrayed out of the national Treasury. The government also instructed the departments to curtail their expenditures and, by the regulation concerning the trans-

fer of state factories to private undertakings, charged the departments to transfer to private individuals all the government factories hitherto carried on by the government. At the same time the loaning business out of the reserve fund of the Treasury was abolished. Thus funds obtained by these curtailments and adjustments were all directed to the redemption of paper money.

In spite of all these government measures the price of paper currency went on decreasing, reaching its extremity in April, 1881, when the ratio between silver and paper currency was one *yen* to 1.815 *yen*. Moreover, there was an upheaval of prices and an advance of money interest which resulted in the repression of enterprises. A heated public discussion as to its relief was then carried on. The government decided in October, 1881, on the adoption of a fundamental policy in connection with the redemption and readjustment of paper money. For this purpose resort was had to about 7,000,000 *yen* out of the ordinary revenue, and to above 38,438,000 *yen* out of the reserve fund, representing the balance after deducting various advances, amounting to 19,355,000 *yen*, out of the reserve fund amounting to 55,793,000 *yen*. These two funds were at once appropriated to the redemption of paper money on the one hand, and the accumulation of specie on the other, in order that the recovery of the price of paper money and the replenishment of specie reserve might be duly accomplished. The establishment of the central bank was also decided upon, with the object of carrying out the exchange of paper money. Thus by Dajokwan Notification No. 32 in June, 1882, the Bank of Japan Regulation was enacted and its business was opened on October 10, 1882. Though the Bank of Japan was expressly authorized by Article 13 of the said regulation to issue the convertible bank notes, the government hesitated to allow the bank immediately to exercise the authority, as there still existed no small agio between silver and paper currency.

The above relates to the readjustment of the government paper money. There were also in circulation the bank notes

issued by the national bank on the exchange reserve of government paper money, which also needed readjustment.

According to the National Bank Regulation of 1872 the bank notes were to be converted into metallic currency, but by the amendment of 1876, they were made exchangeable into inconvertible paper money. Their readjustment, therefore, had to be carefully attended to. Consequently, an important amendment was made to the National Bank Regulation by Dajokwan Notification No. 14, May, 1883, the most remarkable feature of which was as follows:

Any national bank might continue its business for twenty years after the date on which it received its charter. Even after the expiration of the term it might continue its business as a private bank, but should not retain the privilege of issuing paper money (Art. 12). National banks were required to deposit with the Bank of Japan the sum of money corresponding to one-fourth of the paper money granted, and the reserve fund out of the half-yearly profits corresponding to 1.25 per cent of the amount of paper granted (Art. 20). The Bank of Japan should, on request, exchange bank paper money issued by the national banks (Art. 49). All the paper money issued by the national banks was to be withdrawn while they existed as the national banks according to such method as the government thought fit. But the procedure of the management was to be decided by the finance minister, and subsequently to be attended to by the Bank of Japan (Art. 212). Besides the bank notes redeemed by the Bank of Japan according to the above method, there were also the national bank notes, amounting to 243,028 *yen*, which were withdrawn during the period from November, 1881, to the end of 1885, on account of the stopping of business of, or the decreasing of the number of shares of, the national banks. Forged paper money amounting to 19 *yen* was also withdrawn. In May, 1883, the privileges which had been granted to the Fifteenth National Bank—the privilege of issuing 2,400,000 *yen* beyond the legal limit—was taken away, and the bank was ordered to withdraw 2,400,000 *yen*. In consequence of the above expe-

dient the government and bank paper money were considerably withdrawn after 1881, and their circulation witnessed a remarkable decrease. We give below the amount of both sorts of paper money redeemed after 1882.

REDEMPTION OF PAPER MONEY AND BANK NOTES[1]

Year	Government Paper Money Redeemed	Bank Notes Redeemed	Total Amount of Redemption
	Yen	*Yen*	*Yen*
1882	536,181	11,469	547,650
1883	7,369,737	109,613	7,479,350
1884	4,619,044	3,259,794	7,878,837
1885	5,035,137	860,553	5,895,690
1886	20,544,258	653,905	21,198,162
1887	11,985,794	897,351	12,883,145
1888	9,080,311	924,477	10,004,788
1889	5,543,803	940,451	6,484,254
1890	7,918,216	928,485	8,846,701
1891	5,385,994	941,212	6,327,206
1892	7,058,476	978,999	8,037,475
1893	4,421,244	1,134,391	5,555,635
1894	3,002,453	974,322	3,976,775
1895	2,275,323	985,010	3,260,333
1896	1,753,052	4,298,897	6,051,949
1897	1,925,073	11,473,160	13,398,233
1898	2,039,371	3,158,166	5,197,537
1899	5,411,727	1,866,563	7,278,290
Total	105,505,194	34,396,816	140,302,010
Total since 1868	123,335,597	35,001,349	158,336,946

Thus, during the period extending from November, 1881, to March 31, 1890, the withdrawal of both national bank and government paper money amounted to 83,839,700 *yen* and 3,730,000 *yen*, respectively. The withdrawal was carried on steadily and there was a simultaneous increase in the specie reserve, and thus the foundation of the convertible note system was laid. A convertible bank note system was established by Dajokwan Notification No. 18, May, 1884. On May 9, 1885, the Bank of Japan issued for the first time convertible bank notes. The following table shows the circulation of, and the

[1] Based upon *A Summary of the Circumstances Attending the Monetary System Reform* and *History of Finance in the Meiji Era*, vol. XII. The figures below *yen* have been omitted. The redemption of government paper money was accomplished in December, 1899, and that of bank notes in November, 1899.

specie reserve for, government and bank paper money, and convertible bank notes:

GOVERNMENT AND BANK PAPER MONEY AND CONVERTIBLE BANK NOTES[1]

Calendar Year	Amount of Circulation of Government Paper Money	Amount of Circulation of National Bank Paper Money	Total	Specie Reserve in the Treasury	Convertible Bank Notes	Specie Reserve for Convertible Notes
	Yen	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*
1882.....	109,369,014	34,385,349	143,754,363	16,730,267	....	....
1883.....	97,999,277	34,275,735	132,275,012	25,876,230	....	....
1884.....	93,380,233	31,015,942	124,396,175	33,569,188	....	....
1885.....	88,345,096	30,155,389	118,500,485	42,265,640	3,956,161	3,311,461
1886.....	67,800,846	29,501,484	97,302,330	25,865,864	39,025,779	23,855,237
1887.....	55,815,044	28,604,133	84,419,178	19,790,388	53,235,102	31,579,904
1888.....	46,734,740	27,679,656	74,414,397	8,150,822	62,995,518	45,022,871
1889.....	40,913,034	26,739,205	67,652,240	10,709,950	74,297,005	57,409,299
1890.....	34,272,447	25,810,720	60,083,167	25,000,000	102,931,766	44,622,333

The decrease of government and national bank paper money, together with the increase of specie reserve, brought about the rehabilitation of the price of paper money, which was accompanied by the fall of prices and money interest. This was followed by the excess of exportation over importation and resulted in the influx of metallic currency. The following table shows the annual average price of paper money equivalent to one *yen* gold or silver coin after 1882:

PAPER MONEY EQUIVALENTS IN GOLD AND SILVER COIN[2]

Year	Paper Money Equivalent to One *Yen* in Gold Coin	Paper Money Equivalent to One *Yen* in Silver Coin
1882.....	1.690	1.571
1883.....	1.394	1.264
1884.....	1.198	1.089
1885.....	1.218	1.055
1886.....	1.246	1.000

The specie reserve for the government paper money and convertible bank notes steadily rose in amount, exceeding 50,000,000 *yen* after 1887, while on the other hand there was a

[1] Based on *A Summary of the Circumstances Attending the Monetary System Reform* and *The History of Finance in the Meiji Era*, vol. XII.

[2] Based on *A Summary of the Circumstances Attending the Monetary System Reform*. After 1886 the price of bank paper money was restored to par, and for this reason we have omitted the figures after that date.

decrease of paper money and increase of convertible bank notes. This state of affairs suggested the arrival of a unique opportunity for accomplishing a fundamental reform in the monetary system. By Imperial Ordinance No. 59, July, 1888, therefore, the government revised the Convertible Bank Notes Regulation, by which the Bank of Japan was authorized to issue over and above the specie reserve, convertible notes within the limit of 70,000,000 *yen* on security reserve. Of the above, some 27,000,000 *yen* corresponded to the unredeemed national bank paper money outstanding on January 1, 1889. The issue of bank notes in the future, therefore, was only allowed in proportion to the degree of the redemption of the bank paper money. Further, the government ordered the Bank of Japan to make a loan to itself within the limits of 22,000,000 *yen* at 2 per cent interest per annum, for the redemption of government paper money, which order the Bank of Japan duly carried out. Although the government paper money had been in circulation at par and very little demand was made for its exchange, it was inconsistent with the spirit of the conversion system that inconvertible government paper money upwards of one *yen*, amounting to about 32,000,000 *yen* (at the end of March, 1890), should be left in circulation. The government, therefore, with a view to putting an end to its circulation, created a special account known as the paper money exchange fund, by Law No. 24, 1890, to which were transferred 10,000,000 *yen* out of the reserve fund and 22,000,000 *yen* out of the aforesaid loan from the Bank of Japan. Thus the exchange of government paper money was honestly pushed forward. By Law No. 6, 1898, the term of its circulation was limited to February 31, 1899. In exactly five years, counting from the day on which its circulation was abolished (December 31, 1904), the exchange and withdrawal were brought to a close, and inconvertible paper money completely disappeared from the market.[1] The following table shows paper money, convertible notes and specie reserve, with the object of supplementing the preceding table and also of show-

[1] Report concerning the paper money adjustment.

ing the circumstances under which the paper money was readjusted:

PAPER MONEY, BANK NOTES, CONVERTIBLE NOTES AND SPECIE RESERVE[1]

Calendar Year	Amount of Circulation of Government Paper Money	Amount of Circulation of of Bank Notes	Amount of Circulation of Convertible Notes	Total	Amount of Specie Reserve
	Yen	*Yen*	*Yen*	*Yen*	*Yen*
1891	28,737,657	24,869,508	115,734,545	169,341,710	83,678,333
1892	21,409,432	23,890,509	125,843,363	171,143,304	66,158,265
1893	16,407,000	22,756,119	148,663,128	187,826,247	97,928,516
1894	13,404,547	21,781,797	149,813,700	185,000,045	90,718,291
1895	11,129,224	20,796,786	180,336,815	212,262,825	68,370,797
1896	9,376,172	16,497,889	198,313,896	224,187,957	140,095,192
1897	7,451,098	5,024,729	226,229,058	238,704,885	105,226,473
1898	5,411,726	1,866,563	197,399,901	204,678,190	96,535,239
1899	4,125,783	....	250,562,040	254,687,823	110,142,169

Readjustment of Conversion

FIRST NATIONAL LOAN CONVERSION

The first national loan conversion scheme was realized by the issue of the consolidated public loans during the period extending from 1886 to 1897. Except for the fact, however, that this consolidation was favored by the success of paper money readjustment, and that two or three war loans were readjusted by this process, it can not be said that there existed any intimate connection between war loans and the consolidated loan.

The national loans which had been issued since the Restoration were floated for a variety of purposes, now to meet the exigencies of political changes and reforms, now for national defense and increase of armament, now for productive industries, etc. The provisions with regard to these loans were found in various regulations. The rate of interest, terms of redemption and other details of loan were different in the extreme, one from the other. In other words, there was great complexity in the treatment of these public bonds, which

[1] Based upon *A Summary of the Circumstances Attending the Monetary System Reform* and Finance Department *Reference Book Concerning Monetary Affairs.* The amount of specie reserve is the aggregate sum of the specie reserve for government and bank paper money, and the specie reserve for convertible bank notes. The amount of specie reserve for bank paper money at the end of 1897 and 1898 is the figure in September, 1898.

put the Finance Department to great inconvenience. Just then the work which had been commenced in January, 1886, was proving a success in the way of readjusting the paper money; and the conversion system was also initiated. As a result, the value of paper money was restored to par. The money interest was lowered through the gradual development of monetary organs, and interest on deposits fell to between 3 and 4 per cent. Prices of various public bonds bearing more than 6 per cent interest all commanded a premium. Such having been the case, the time may be said to have arrived for the government to convert the national loans bearing high interest in order to reduce the expenditure of the national Treasury and the burden of the nation on one hand, and in order to consolidate and readjust various public loans on the other. On April 1, 1886, the total amount of unredeemed national loans stood at 260,822,609 *yen*. If we exclude from the above sum 68,097,237 *yen* at 5 per cent and 17,620,033 *yen* at above 6 per cent, in which the term of redemption could not be changed, the public debts bearing above 6 per cent interest and amenable to readjustment by conversion were still estimated at 175,203,340 *yen*. Therefore, the government, with a view to redeeming these high interest-bearing debts, by the issue of a 5 per cent consolidated public loan totalling 175,000,000 *yen* in round numbers, promulgated by Imperial Ordinance No. 66, October, 1886, a Consolidated Public Loan Regulation.

Details with regard to it were laid down by Financial Department Order No. 30 of the same month. Later, provisions with regard to the extraordinary issue were added by Imperial Ordinance No. 46, June, 1888, which was enforced side by side with the provisions concerning the ordinary issue. According to the various regulations mentioned above, we note three methods by which high interest-bearing debts were converted into consolidated public loans. The first was an ordinary subscription, *i.e.*, designed to raise funds from the public at large and to repay high interest-bearing debts in cash. The second was an extraordinary special issue method, *i.e.*, to

make the Deposit Bureau purchase the consolidated public loan at the current price and to clear off high interest-bearing public loans with the money thus obtained. The third was the bond exchange method, *i.e.*, to exchange the high interest-bearing public bonds into the consolidated public bonds. The public debts bearing interest upwards of 6 per cent which were redeemed and converted by these devices during the period extending from 1886 to 1893 were hereditary pension bonds, Nakasendo Railway bonds, loans for encouragement of industries and Kinsatsu exchange bonds. As a surplus was secured in excess of the estimated amount, an item in the form of the redemption of the temporary loan for the suppression of rebellion was added from 1895, which also was thus completely repaid in May, 1897.

The issue of the consolidated public loan finally totaled 173,017,647 *yen*. Though the consolidated public loan amounted to such a huge sum, the kinds of war loans which were redeemed with it were only "Kinsatsu" exchange bonds and temporary loans for the suppression of rebellion.

SECOND NATIONAL LOAN CONVERSION

The second conversion of national loans was the so-called 4 per cent conversion which was carried out on several occasions during 1910 and had a great deal to do with war and armament loans.

As a result of the war of 1904 to 1905 the domestic loans increased by over 667,000,000 *yen*. The nationalization of railways which took place after the war added over 475,000,000 *yen*. Thus, the total amount of domestic loans at the end of December, 1909, reached 1,419,874,689 *yen*, of which the old public loan, the navy loan, the consolidated loan, the military loan, the railway loan, the public undertakings loan, the Hokkaido railway loan, the Formosan public undertakings loan, totalling 529,854,389 *yen*, had already become overdue.

In view of these circumstances, the government adopted the policy of readjustment, when the great war approached its end, thinking that this was the most important of all the postbellum

financial policies. To carry on the repayment of loans, and thus keep up the national credit, a sinking fund was created, and by taking advantage of the high credit which the government thus maintained, it decided to effect the conversion into a lower rate of interest. We shall speak about the creation of the sinking fund later on, and shall treat here only of the conversion to a lower interest rate. The time for conversion, however, had not easily arrived. But with the beginning of 1910 the balance of trade became favorable, the monetary circulation grew sluggish, rate of interest steadily fell, and the quotations of public debts, which had long been below par, rose, at last commanding a premium. Taking advantage of these favorable circumstances of the money market, the government decided upon converting the 5 per cent public loan into a 4 per cent loan, and by Financial Department Order No. 5, February 5, 1910, it promulgated a regulation concerning the issue of the first 4 per cent public loan. The most important conditions with regard to its issue were as follows:

(1) The total amount of issue shall be 100,000,000 *yen*.

(2) The rate of interest shall be 4 per cent per annum.

(3) The principal shall be redeemable within fifty years after the lapse of ten years, during which it is to remain unredeemed.

(4) The minimum issue price shall be 95 *yen* per value 100 *yen*.

(5) The 5 per cent national loan bonds, which have already been issued, can be substituted for cash in subscribing to the present loan.

The representatives of fifteen banks in Tokyo and Osaka were summoned and they were induced to organize an underwriting syndicate to manage the general subscription. An agreement was entered into that in case the amount subscribed fell short of the amount offered the syndicate should take the amount unsubscribed. On the close of subscription the total sum responded to was found to be 180,774,400 *yen*, of which 120,000,000 *yen* was subscribed in cash.

The first subscription having been crowned with success,

the government decided to prosecute a further conversion. On March 15, 1910, a project for the second conversion was published. The total amount offered was 100,000,000 *yen*, and the conditions were nearly the same as those of the first conversion, except that much more convenience was offered for the exchange. Besides the body of underwriting banks (which was more in number than on the previous occasion) the brokers of the Tokyo Stock Exchange organized another syndicate for subunderwriting. The total amount of the second flotation figured up to 151,759,900 *yen*, of which subscriptions in cash amounted to only 58,402,350 *yen*. The final amount of subscription of the two preceding conversions was as follows:

Subscription and Issue	First Conversion	Second Conversion	Total
	Yen	*Yen*	*Yen*
Amount subscribed....	100,000,000	100,000,000	200,000,000
In cash.....	31,316,900	759,000	32,075,900
In substitutes.....	68,683,100	99,241,000	167,924,100
Amount issued.....	95,008,473	95,002,589	190,011,062

In this way was cleared off 190,000,000 *yen* out of 520,000,000 *yen* of 5 per cent public loans that had then become due. Out of the remainder of 330,000,000 *yen*, the total of 150,000,000 *yen* had flowed out of the country partly by the endorsement of the government and partly by the exportation of individuals. This latter sum could be redeemed through the flotation of a foreign loan in the future, but the remaining 170,000,000 *yen* in round numbers must be converted according to the principle adopted by the government, which necessitated the flotation of the third 4 per cent loan. The circumstances of the money market, however, were not favorable to the conversion issue, and the government was obliged to change its policy. Repayment in cash was made the principle, and the delivery of 4 per cent bonds was made only on special application. To obtain the funds for this repayment the flotation of foreign loans was decided upon.

Happily, the credit of our loans in the English and French money markets just then began to increase. In the first place, the government negotiated with French capitalists, and in April, 1910, the subscription of a 4 per cent French loan was concluded, and the issue of the bonds took place on May 16. Its terms were that the rate of interest should be 4 per cent per annum, that its issue price should be 95.5, that the term during which it was to remain unredeemed should be ten years, that the term of redemption should be fifty years after outstanding for ten years. The amount actually received was 159,347,250 *yen*, in terms of our currency. In the second place, the government entered into negotiations with English capitalists, and on May 11, 1910, the third 4 per cent sterling loan amounting to £11,000,000 was concluded, and the issue of the bonds took place on May 27 and on August 17. The most important of the terms were that the rate of interest should be 4 per cent per annum, that the issue price should be 95, that the term during which it was to remain unredeemed should be ten years, that the terms of redemption should be fifty years after outstanding for ten years, and that in case endorsed 5 per cent public bonds were substituted for cash, the charge should be 10 shillings per 1,000 pounds.

The final result of the flotation was that the amount of subscription substituted in 5 per cent bonds was £4,798,200 and subscription in cash £6,201,800, the total amount thus reaching 97,474,999 *yen*, in terms of our currency.

A part of the actual receipts by the sterling and French loans amounting to over 256,800,000 *yen* was employed for the redemption of the navy, consolidated, war, 5 per cent exchequer, and Formosan public undertakings loans, etc. (excepting those which were endorsed), totalling 190,092,000 *yen*, which had reached the termination of the period for which they were to remain unredeemed.

The following provisions were made for those who applied for 4 per cent domestic loan bonds instead of cash:

(1) The first 4 per cent domestic bonds should be delivered at 95 per cent.

(2) The national loans which had not yet fallen due were permitted to be converted on request.

(3) The interest should be reckoned from the first day of the month in which the application was made.

By these stipulations the conversion by the first 4 per cent domestic loan was encouraged. This was practically the third 4 per cent conversion, but in point of form the bond was exactly the same as that of the first 4 per cent domestic loan. With these the 5 per cent domestic loans which had now become redeemable, and passed the term for which they were to remain unredeemed, were all converted into 4 per cent bonds, or else repaid in cash, and thus the 4 per cent conversion program was temporarily completed.

The actual receipt of the above domestic and foreign loans subscribed on several occasions, the sum transferred from the general account in 1910 to meet the repayment of the national loans, and the sum carried over from the fiscal year 1909, constituting the fund for repaying the 5 per cent public debts which had fallen due, were respectively as follows:

	Yen
Raised by public loans	517,477,538
Transferred from the general account	60,800,000
Carried over from 1909	21,747,395
Total	600,024,933

The amount of the 5 per cent domestic loan repaid by the above funds was as follows:

	Yen
Repaid in cash	249,908,591
Substitute payment and conversion by 4 per cent loans	273,218,075
Total sum of 5 per cent domestic loan redeemed	523,126,666

Again the kinds of the public debts repaid are shown as follows:

	Yen
Navy loan (entire sum)	8,296,700
Consolidated loans (entire sum)	162,552,200
War loan (entire sum)	113,398,950
5% public loan (entire sum then redeemable)	137,502,850
5% " " (Mark ko)	3,296,600
5% " " (Mark otsu)	1,585,900
5% " " (special)	20,474,200
The second exchequer bond (entire sum)	56,359,250

	Yen
The third exchequer bond	12,011,625
Tobacco monopoly exchequer bond	7,441,450
The first and the fourth exchequer bond	10,175
Formosan public undertaking loan (entire sum)	92,735
4% loan of second issue	3,250
4% sterling loan of second issue	781
Debentures of "Sōbu" railway	100,000
Total	523,126,666

The issue of the 4 per cent public loan against the above, and the amount of 5 per cent public loans redeemed by the actual receipt of the issue, are shown as follows:

		Yen
Amount of issue of 4% domestic and foreign loan:		
4% loan of first issue	176,029,350	
4% loan of second issue	99,999,500	
4% loan (issued in Paris)	175,150,000	
4% sterling loan	107,393,000	
		558,571,850
Amount of 5% loan redeemed by actual receipt		518,413,383
Balance (increased amount of new loans)		40,158,467

The 4 per cent conversion saved the national Treasury the annual interest charge of 3,645,000 *yen*, though it increased simultaneously the capital amount by 40,158,467 *yen*. This computation, however, does not reveal the entire truth, because the authority relied upon for this estimate is the Finance Department, which did not take the face value into consideration. If computation of the issue and redemption of domestic and foreign loans had been according to their face value, the disadvantage of capital increase would have been so great as to reduce to the minimum the advantage in the way of interest curtailment. Be the matter what it may, there is no doubt that on account of this conversion, war and armament loans such as military loan, navy loan and exchequer bonds were greatly readjusted.

Fund for the Readjustment of the National Loans

Our country came out of the Russo-Japanese War with an enormously increased national debt. As soon as the war was over, the authorities attached the greatest importance to repayment and readjustment of all the postbellum finances. A

fund for the readjustment of national loans, therefore, was created, which exists to this day. The creation of a fund aiming at the readjustment of national loans, however, was not an innovation of this period. There was a regulation called the "Sinking Fund Regulation," in the beginning of the Restoration, for meeting excessive national debts and for neutralizing the disorder of the monetary system. We shall, therefore, treat of the subject historically.

The first fund for the readjustment of national loans originated in the national Treasury reserve fund, established in October, 1869. This reserve fund consisted of the proceeds from the sale of disused articles and miscellaneous receipts other than out of taxes. To this reserve fund were added old clan paper money reserve and various new and old coins extant in the national Treasury. These, put together, were made the reserve fund for the withdrawal of paper money and public loans in June, 1872. Thereafter the amount saved by the curtailment of the annual expenses was paid into the fund. Gold and silver bullion, old coins and public bonds were bought, and thus the recoinage and the profit was planned. In July, 1878, the reserve fund for the withdrawal of paper money and the fund for the adjustment of national loans were separated from each other, the former fund being fixed at 10,000,000 *yen* and the latter at 20,000,000 *yen*. To the latter fund was annually transferred 20,000,000 *yen* out of the general annual account that it might be appropriated to the redemption of public bonds every financial year. Its surplus was put aside and the interest accumulated. Since then the repayment of national bonds was steadily carried on by this method, the endeavor being made at the same time to increase the fund. After 1882, however, the system of conversion was established, and stocks recovered their credit, thus minimizing the necessity of the accumulation of the fund. In February of 1886, it was provided that the fund for the readjustment of national bonds should be abandoned after the financial year 1885. The money extant at the time of the abolition amounted to 26,922,-265 *yen*, of which 11,477,378 *yen* was transferred to the general annual account to take care of expenditures for the

redemption of national loans. The remaining 15,444,886 *yen* was returned to the reserve fund for paper money conversion.

The second fund for the readjustment of national loans was, as above, created upon the termination of the Russo-Japanese War. The amount of war loans, inclusive both of domestic and foreign loans which had been raised during the Russo-Japanese War, amounted to the huge sum of over 1,300,000,000 *yen*.

After the conclusion of the war, *i.e.*, in the financial year 1906, the public loan amounting to 463,000,000 *yen* was planned to be raised for the replenishment of the extraordinary affairs and extraordinary military expenditures. In short, the total amount of the public debts on account of this war reached more than 1,763,000,000 *yen*. If we add to this sum unredeemed public debts outstanding before the outbreak of the war, which came to over 535,000,000 *yen*, the entire sum reached approximately 2,300,000,000 *yen*. There had been created in the ordinary annual account an item called national loans expenditure for the redemption of old loans. For the new loans, however, amounting to 1,763,000,000 *yen*, a new program for adjustment was yet to be made. By Imperial Ordinance No. 236, November, 1905, the government promulgated a regulation with regard to the organization of a bureau for the readjustment of extraordinary national loans. During the twenty-third session of the Diet it introduced a special financial bill relating to the fund for the readjustment of national loans, which was duly approved by the Diet and was promulgated in the redemption and readjustment of war loans; but it had also as an auxiliary object to readjust the old and other new loans. Therefore, it was provided that a sum not less than 110,000,000 *yen* must be annually received from the general account for the disbursement of war loans. The fund for the disbursement of other national loans was to be provided out of the national loans expenditure of the general account, and out of the similar item in the special account in accordance with the annual budget estimates.

A program had already been established to appropriate an annual amount of about 40,000,000 *yen* for the cancellation of old loans. The amount transferred from the general account to the fund for the readjustment of national loans was about 150,000,000 *yen* in all. Of this about 120,000,000 *yen* being required for the interest charge, only about 30,000,000 *yen* was to be appropriated to the discharge of the principal. After the financial year 1909 the government strenuously endeavored to redeem the national loans. The annual amount to be appropriated for the repayment of principal was brought up to not less than 50,000,000 *yen*.

From the following fiscal year onward, the surplus amount of interest accumulated by the redemption of each preceding financial year was appropriated to the redemption of principal. It was not long, however, before this program ended in failure, on account of the armament expansion. Moreover, the annual amount appropriated to the redemption of principal was reduced to not less than 30,000,000 *yen*, by the revised law of 1915.

Expenditures for the National Loans

The expenditure for the national loans is a special name given to the division of our budget which included not only the redemption and payment of the principal and interest of the domestic and foreign loans, but also the payment of the expenses for the issue of the bonds, the fees for the management and other miscellaneous expenses. But the redemption of the principal and the payment of interest of the national loans undoubtedly formed the two most important items. Inasmuch as the nature of this expenditure was as above mentioned, it was quite natural that its amount should increase with the increase of the national loans. The increase of war loans, especially, had remarkable effects upon this expenditure. The table on the next page substantiates the above statement.

How the national loans expenditures increased year by year can be best shown by comparing the rate of increase of this

NATIONAL LOANS EXPENDITURE AND ITS PROPORTION TO THE TOTAL EXPENDITURE[1]

Fiscal Year	National Loans Expenditure	Percentage to Total Expenditure	Amount Redeemed	Amount of Interest	Total Amount Principal and Interest
	Yen		*Yen*	*Yen*	*Yen*
Fourth..	439,337	2.30	....	437,151	437,151
Fifth....	439,340	0.70	219,454	437,151	656,605
Sixth....	2,996,039	4.60	707,454	2,103,338	2,810,792
Seventh.	3,254,140	4.00	707,454	2,464,440	3,171,894
Eighth..	1,593,083	2.40	....	866,830	866,830
1875....	4,645,302	6.70	1,339,995	3,239,022	4,579,017
1876....	4,950,797	8.30	1,890,249	2,999,217	4,889,466
1877....	16,774,928	36.90	975,855	14,479,126	15,454,981
1878....	26,640,136	47.50	3,475,274	15,111,498	18,586,772
1879....	21,749,652	39.40	3,575,757	15,146,526	18,722,283
1880....	22,420,573	37.10	3,796,854	15,417,032	19,213,886
1881....	27,747,123	45.90	3,949,289	14,797,242	18,746,531
1882....	23,414,961	39.10	7,864,207	14,330,534	22,194,741
1883....	28,658,303	42.20	5,425,294	14,058,879	19,484,173
1884....	19,819,615	32.60	4,290,101	14,283,624	18,573,725
1885....	14,101,377	29.60	5,089,752	8,016,848	13,106,600
1886....	24,090,611	29.20	21,022,267	15,118,718	36,140,985
1887....	21,415,690	27.40	26,457,542	15,179,127	41,636,669
1888....	20,717,784	26.30	31,198,368	14,705,563	45,903,931
1889....	18,362,110	23.00	15,885,758	14,371,207	30,256,965
1890....	20,317,932	25.00	5,361,401	13,649,110	19,010,511
1891....	18,515,799	21.60	24,157,111	13,548,902	37,706,013
1892....	18,517,168	23.00	49,596,238	13,204,565	62,800,803
1893....	19,455,918	23.10	13,318,870	11,817,932	25,136,802
1894....	19,721,143	25.20	4,108,798	11,572,029	15,680,827
1895....	24,190,858	28.70	4,990,059	14,431,091	19,421,150
1896....	30,504,172	18.00	8,120,310	16,847,503	24,967,813
1897....	27,300,959	12.20	7,288,107	18,006,785	25,294,892
1898....	27,284,287	12.40	8,215,555	19,485,675	27,701,230
1899....	32,885,787	12.90	1,644,874	20,953,413	32,598,287
1900....	34,501,485	11.80	9,775,705	22,935,791	32,711,496
1901....	35,777,814	13.40	10,240,705	23,286,450	33,527,155
1902....	75,319,554	26.00	13,795,880	24,376,847	38,172,727
1903....	35,895,399	14.38	3,218,290	25,890,462	29,108,752
1904....	44,193,194	15.96	219,455	32,011,720	32,231,175
1905....	124,398,585	29.58	40,472,173	86,345,748	126,817,921
1906....	156,415,134	33.70	176,932,122	101,786,341	278,718,463
1907....	176,504,590	29.30	247,296,460	116,341,318	363,637,778
1908....	178,942,644	28.12	97,297,030	105,473,318	202,770,348
1909....	155,281,255	29.14	130,134,009	116,456,018	246,590,027
1910....	171,461,147	33.54	453,779,773	121,983,960	575,763,733
1911....	147,222,558	25.16	102,231,843	117,962,842	220,194,685
1912....	142,323,811	24.39	60,835,228	114,876,828	175,712,056
1913....	142,949,794	24.38	57,047,796	112,803,688	169,851,484

[1] Based upon *Financial History of the Meiji Era* (with regard to the figures prior to twenty-fifth fiscal year) and upon *National Loans Statistics* (with regard to later figures). National loan expenditure with respect to funded and floating loans, and the principal redemption and interest payment of ordinary loans only were taken into account. Though the principal redemption refers only to ordinary

item with the total amount of outlays of every financial year. And the considerable increase of the amount of the principal redemption and interest discharge, which forms the most important items of the expenditures, may easily be realized. The table on this page distinguishes between domestic and

REDEMPTION AND INTEREST PAYMENT OF DOMESTIC AND FOREIGN LOANS [1]

Fiscal Year	Redemption of Domestic Loans	Redemption of Foreign Loans	Total	Payment of Interests on Domestic Loans	Payment of Interests on Foreign Loans	Total
	Yen	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*
Fourth....	....	....	....	....	437,151	437,151
Fifth.....	219,454	....	219,454	....	437,151	437,151
Sixth.....	219,454	488,000	707,454	850,171	1,253,167	2,103,338
Seventh...	219,454	488,000	707,454	1,254,989	1,209,452	2,464,441
Eighth....	....	....	....	109,101	757,729	866,830
1875.....	617,755	722,240	1,339,995	2,113,018	1,126,004	3,239,022
1876.....	1,151,905	738,344	1,890,249	1,925,481	1,073,736	2,999,217
1877.....	219,455	756,400	975,855	13,424,223	1,054,903	14,479,126
1878.....	2,700,330	774,944	3,475,274	14,040,838	1,070,660	15,111,498
1879.....	2,780,805	794,952	3,575,757	14,108,329	1,038,197	15,146,526
1880.....	2,980,430	816,426	3,796,856	14,231,523	1,185,509	15,417,032
1881.....	2,109,929	839,360	2,949,289	14,006,457	790,786	14,797,243
1882.....	6,999,959	864,248	7,864,207	13,606,700	723,834	14,330,534
1883.....	5,022,694	402,600	5,425,294	13,362,998	695,881	14,058,879
1884.....	3,859,685	430,416	4,290,101	13,954,685	328,938	14,283,624
1885.....	4,629,080	460,672	5,089,752	7,335,689	681,159	8,016,848
1886.....	20,528,899	493,368	21,022,267	14,444,495	674,223	15,118,718
1887.....	25,930,014	527,528	26,457,542	14,509,776	669,351	15,179,127
1888.....	30,634,240	564,128	31,198,368	14,075,712	629,851	14,705,563
1889.....	15,281,614	604,144	15,885,758	13,803,476	567,731	14,371,207
1890.....	4,715,289	646,112	5,361,401	13,169,476	479,634	13,649,110
1891.....	23,465,615	691,496	24,157,111	13,105,014	443,888	13,548,902
1892.....	48,856,430	739,808	49,596,238	12,784,488	420,077	13,204,565
1893.....	12,527,334	791,536	13,318,870	11,443,102	374,830	11,817,932
1894.....	3,261,630	847,168	4,108,798	11,223,882	348,147	11,572,029
1895.....	4,083,355	906,704	4,990,059	14,208,917	222,175	14,431,092
1896.....	7,150,654	969,656	8,120,310	16,753,812	93,690	16,847,503
1897.....	7,054,355	233,752	7,288,107	17,900,054	16,731	18,006,785
1898.....	8,215,555	....	8,215,555	19,485,675	....	19,485,675
1899.....	11,644,874	....	11,644,874	19,003,234	1,950,179	20,953,413
1900.....	9,775,705	....	9,775,705	19,030,575	3,905,215	22,935,791
1901.....	10,240,705	....	10,240,705	19,381,210	3,905,239	23,286,450
1902.....	13,795,880	....	13,795,880	20,479,779	3,897,067	24,376,847
1903.....	3,218,290	....	3,216,290	21,987,234	3,903,228	25,890,462
1904.....	219,455	....	219,455	25,179,778	6,831,942	32,011,720
1905.....	40,472,173	....	40,472,173	45,009,157	41,336,591	86,345,748
1906.....	176,916,501	15,621	176,932,122	50,314,125	51,472,216	101,786,341
1907.....	32,525,105	214,771,355	247,296,460	54,360,206	61,981,315	116,341,521
1908.....	97,297,030	....	97,297,030	53,671,651	51,801,668	105,473,319
1909.....	130,108,235	25,774	130,134,009	64,697,410	51,758,608	116,456,018
1910.....	453,777,040	2,733	453,779,773	63,240,519	58,743,440	121,983,960
1911.....	92,465,330	9,766,513	102,231,843	55,329,452	62,633,390	117,962,842
1912.....	51,068,930	9,766,298	60,835,228	52,564,464	62,312,364	114,876,828
1913.....	42,401,737	14,646,059	57,047,796	51,162,767	61,640,921	112,803,688

loans, it includes no small amount of conversion loans, which accounts for the fact that the aggregate amount of principal redemption and interest payment exceeds national loans expenditures. The total amount of principal and interest is the aggregate sum of the amount redeemed, plus the amount of interest.

[1] Based upon *Finance Department Investigation of National Debts*. This table does not include temporary loans, exchequer bonds, and railway bonds. The figures in the eighth period could not be ascertained on account of imperfect materials, and they have been added either to the figures of the seventh period or the eighth fiscal year. The figures of interest payment for the second fiscal year of Taisho are based upon rough estimates.

foreign loans, with regard to principal redemption and interest payment.

This table shows that the amount of principal redemption witnessed a noticeable increase in the financial years 1878, 1894 and 1904—the dates of the Satsuma Rebellion, the Sino-Japanese War and the Russo-Japanese War, respectively. After the financial year 1904, especially, the nominal amount of redemption figured up to a huge sum, because after that date the method of repayment by conversion was resorted to. But as the domestic loans were mostly converted into foreign loans, there was but slight repayment of foreign loans, except in the financial year 1907. It may be said, therefore, that this table shows in an indirect way that there was a steady increase of foreign loans. The amount of interest charge is in ratio to the unredeemed amount of national loans for each fiscal year. Especially was this true after the fiscal year 1906 as the domestic loans were gradually converted into foreign loans and the amount of interest for foreign loans far surpassed that of domestic loans, while the amount of principal redemption of foreign loans was very small.

Relation between National Loans Expenditures and Taxes

The expenditure for the redemption of the principal and payment of interest of our national loans was disbursed out of the ordinary resources, which in our financial system consisted chiefly of taxes. It was, therefore, quite natural that the increase of the national loan expenditure should bring increase of taxes in its train. A statistical proof of the relation between the taxes and the expenditure for the war and armament loans is no easy task, because the expenditure for the redemption and interest of public loans, with regard to the war of the Restoration and the Satsuma Rebellion, were later mingled with the expenditure for those of the consolidated loans which unified and readjusted various other public debts. The redemption and interest charge for the consolidated public loan, the navy loan, the war loan in connection with the Sino-Japanese War, the exchequer bonds, and extraordinary military expenditures loans were all

blended into the redemption and interest expenditure of the Imperial Government 4 per cent loan, or that of foreign loans. Thus the distinction between various loans expenditures became very obscure. The single exception was the repayment and interest expenditure in connection with the Russo-Japanese War loan, where it was made distinguishable by legislation, and thus the kind of increased taxes for that particular purpose was very clear. Therefore, with regard to this loan the connection between the redemption and interest expenditure and taxes can be shown fairly well.

At the outbreak of the Russo-Japanese War, the government, with the object of meeting the immense war expenses, twice increased or created extraordinary special taxes. The first consisted of the Extraordinary Special Tax Law in 1904 and the Supplementary Budget No. 1 for the financial year 1904, which were approved by the twentieth session of the Diet, March, 1904. By this measure the extraordinary increase of the land tax, income tax, business tax, *sake* tax, soy tax, sugar consumption tax, mining tax, bourse tax, registration tax, Okinawa prefecture spirituous liquors export duties, miscellaneous import duties (customs duties), the introduction of the tobacco manufacture monopoly and the creation of the woolen textiles tax and kerosene consumption tax were carried out to provide a part of the fund for the extraordinary affairs outlay connected with the war. The estimated annual amounts of increased revenue by this first measure was, in round numbers, 62,000,000 *yen*. The second measure consisted of the revised Extraordinary Special Tax Law in 1905 and the supplementary budgets for the financial year of 1905, which were approved by the twenty-first session of the Imperial Diet in November, 1904. By this measure second increases of the land tax, income tax, business tax, *sake* tax, sugar consumption tax, mining tax, bourse tax, registration tax, Okinawa prefecture spirituous liquors export duties and customs duties, were carried out; together with initial increases of stamp duty and patent medicine tax; and the fresh creation of a traveling tax, and succession tax, and salt monopoly. These were introduced to provide a part of

the resources for the immense sum required by the extraordinary military expenditures additional estimate, and by the extraordinary reserve fund estimates for the fiscal year 1905. The estimated amount thus obtained was 74,120,000,000 *yen*.

INCREASE IN TAX AND MONOPOLY RECEIPTS AUTHORIZED BY LAW, 1904 AND 1905

Kind	First Increase	Second Increase	Total
	Yen	*Yen*	*Yen*
Land tax	23,936,213	18,640,678	42,576,891
Income tax	5,287,315	5,286,462	10,673,777
Business tax	5,036,199	5,809,007	10,845,206
Sake tax	178,484	2,566,083	2,744,567
Soy tax	1,138,952	....	1,138,952
Sugar consumption tax	8,212,382	2,400,104	10,612,486
Mining tax	79,115	1,389,586	1,468,701
Tax on bourse	532,846	432,566	965,412
Okinawa spirituous liquors exporting	5,398	66,577	71,975
Customs duty	2,330,633	2,687,626	5,018,259
Patent medicine tax	....	89,279	89,279
Woolen textiles tax	2,138,661	8,468,085	10,606,776
Kerosene tax	1,238,599	....	1,238,599
Traveling tax	....	3,188,180	3,188,180
Succession tax	....	4,309,596	4,309,596
Stamp receipt (registration tax stamp duty and fees)	3,620,797	2,555,303	6,176,100
Monopoly receipt	8,466,285	....	8,466,285
Salt monopoly receipt	....	16,239,667	16,239,667
Total	62,201,879	74,128,799	136,330,678

By these extraordinary special taxes an increase of taxation amounting to 136,330,000 *yen* in round numbers was effected, and probably the amount actually received exceeded the estimated sum. In spite of the express provision of the law that this increased taxation should be abolished with the termination of the war, it came to assume a permanent nature with the establishment of the national loans readjustment fund in the fiscal year 1906. A reflection upon the financial program of the time will clarify the circumstances just mentioned.

The receipts of the aforesaid extraordinary special taxes were the sums estimated in the program. Most of the sub-

sequent actual receipts, however, were mixed with the taxes, rendering the distinction very obscure. Later in the fiscal year 1908, the increased taxation of the annual amount of about $25,000,000 *yen* was added to by the increase of the *sake* tax, the sugar consumption tax and tobacco monopoly charges and the re-creation of a kerosene consumption tax. On the other hand, in the fiscal year 1910, a decrease of taxation amounting to 14,419,803 *yen* was carried out with respect to the land tax, business tax, succession tax, *sake* tax, sugar consumption tax, shooting license fee and fees of administrative suits; and in the fiscal year 1913 a reduction of 7,617,600 *yen* in the income tax was carried out. Thus, owing to the several changes which occurred after the Russo-Japanese War, the exact figures can not be known, but the receipts accruing from the increase of these taxes and monopolies are roughly estimated at between 138,000,000 *yen* and 150,000,000 *yen*. This was nearly the same with the amount which was annually transferred from the general account to the national loans readjustment fund. The figures are shown in the following table:

ANNUAL INCREASE AND TRANSFER OF TAX AND MONOPOLY RECEIPTS, 1906–1913

Fiscal Year	Increase Over 1903	Amount Transferred from General Account to National Loans Readjustment Fund
	Yen	*Yen*
1906	150,670,000	151,183,514
1907	150,670,000	174,390,457
1908	161,000,000	176,839,532
1909	161,000,000	153,179,792
1910	146,581,195	154,270,012
1911	146,580,195	147,212,558
1912	146,580,195	142,323,811
1913	138,862,595	142,919,794

According to this table the receipts from the increased taxation are apparently less than the amount transferred to the national loans readjustment fund, giving the appearance that the national debts were redeemed in greater amount than the increase of taxes. In point of fact, however, it was not

what it appeared to be, because in the amount transferred from the general acount to the national loans readjustment fund was included the national loans expenditure, amounting to from 30,000,000 *yen* to 40,000,000 *yen*, to meet the public loans outside of the war loan, especially the old loans. If we deduct from this transferred amount the redemption expenditure for the principal and interest of the old loans, we know that all the remaining public loans expenditures with regard to the Russo-Japanese War must have been defrayed out of this increased taxation. This was indeed a permanent inheritance of the war of 1904 to 1905 in the form of an unproductive burden imposed upon the shoulders of our people over and above that of the ordinary armament outlays.

Effects upon Local Finance

During the period extending from the Restoration to the Satsuma Rebellion our local finance was almost neglected on account of the constant straits in which our national finance was placed. In 1875 a distinction was made between national and local taxes, and in 1878 a local tax regulation was enacted. The form of government then was characterized by a remarkable centralization of power, and local public works were carried on only to a small extent. Local finance, therefore, was not worthy of any serious attention. By Law No. 1, 1888, the Regulations for Cities ("shi"), Towns and Villages ("cho" and "son"), respectively, were promulgated. By Law No. 35, 1890, and by Law No. 36, 1890, the Regulations for Prefectures (both "fu" and "ken") and the Regulation for the District ("gun") were promulgated. By these laws the system of local autonomy was for the first time placed on a firm basis. Local competence with regard to taxes and loans was recognized, and thus local public undertakings and local finances came gradually to be developed. The central power, however, remained as strong as ever, and local taxes and loans were subject to considerable restrictions on account of the demands of the central finance. At the outbreak of the Sino-Japanese War the annual account of the

central government witnessed a sudden inflation, and the need of new resources was keenly felt. In consequence, local revenue was deprived of the business tax, which was made a national tax in 1896. During the continuance and after the termination of the war the local finance incurred a great amount of expenses for schools, roads, etc. In view of these expenses the restrictions hitherto imposed by the central government upon the local taxation were on several occasions greatly mitigated. But the last restriction on local taxation was imposed by Law No. 27, 1910,[1] which provided that the land surtax should not exceed 53 per cent of the principal tax, the business surtax should not exceed 26 per cent of the principal tax, the income surtax should not exceed 19 per cent of the principal tax, and that the taxation beyond this legal limit, and other special local taxes should be levied only with the sanction of the home and finance ministers. As for the local loans, there were no such minute restrictions. But with regard to the aims and methods of flotation, interest and the method of redemption, the sanction of home and finance ministers was required. The only exceptions were the so-called "Free Loans," in which the sanction of the ministers was not needed. Free loans included the following:

(1) City, town and village loans which were to remain unredeemed for three years and then to be redeemed within thirty years,

(2) All the local loans which were to be redeemed within three years,

(3) Prefectural (both "fu" and "ken") loans not exceeding fifty thousand *yen* and district loans less than one thousand *yen*.

In short the flotation of any local loans, excepting those for a short time or for a small amount, required the sanction of the central government. Moreover, the objects of the flotation of local loans were restricted to the redemption of old loans, to the redress of disasters and calamities, or to public works of a permanent nature. Moreover, a very strict con-

[1] Relating to the restoration of local taxation.

struction was placed upon these provisions, with the object of restricting the right of local flotation.

Upon the outbreak of the Russo-Japanese War in 1904 to 1905, the war expenditures were met by an extraordinary special tax of a huge amount and by the domestic subscription of the exchequer bonds. Local taxes and loans, therefore, were restricted as before. Causes arose, however, after the war which necessitated the increase of local loans.

(1) One of the causes was the exhaustion of resources for the local taxes, due to the continuation of the extraordinary special tax for the readjustment of national debts. When the extraordinary special tax was at first imposed, any further imposition of local surtaxes upon them was prohibited, in order to prevent the increase of local taxation. The national enthusiasm and prestige after the war were accompanied by the growth of local public undertakings which demanded a relaxation of the restrictions imposed upon local taxation. In 1910 the imposition of local surtaxes upon the extraordinary local taxes was at length authorized. As a result of this measure the local taxes rose to the same amount as the national taxes, so far as the direct taxes were concerned. Thereafter the public undertakings expenditure which had hitherto depended upon taxation could hardly be raised unless by resort to the flotation of local loans.

(2) The second cause was the expansion of public undertakings in cities, which attended the rise of cities after the war. These public works included water works, gas and electric enterprises, the construction of roads, markets and schools, all of which had to rely upon public loans for their resources. We may also add to this list the increase of school buildings on account of compulsory education, and repairing expenses due to damages by flood.

(3) The third cause was the introduction of a tremendous sum of foreign capital which attended the flotation of foreign loans. At first a greater part of war expenditures was defrayed from domestic loans, such as exchequer bonds and

extraordinary military expenditures loans. As most of these loans were converted with proceeds of foreign loans during the continuance and after the termination of the hostilities, a great inflow of foreign capital ensued. Money circulation in the home market became slack, and temporarily brought down the rate of interest. This naturally paved the way for the flotation or conversion of local loans. Moreover, local loans hitherto bore a high rate of interest, and the supervising central government encouraged their conversion into loans of lower interest. Following the example set by the national loans, many provinces negotiated directly with foreign capitalists, and converted their loans through the importation of foreign capital. This is the reason for the flotation and constant increase of local foreign loans after the Russo-Japanese War. There is no doubt that the causes of the increase of the local loans were by no means limited to the above three, but it is equally true that these three were the most important ones. It was due to these circumstances that postbellum local finances showed much more remarkable increase in local loans than in local taxes. Inasmuch as the continuance of extraordinary taxes for the readjustment of national loans and the flotation of the large sum of the foreign loans had a great deal to do with war and armament, it is quite proper to enumerate the increase of local loans as one of the influences which the flotation and redemption of war and armament loans had upon local finances. And as it is equally natural that increase of local loans should be attended by increase of local loans expenditure for the redemption and payment of their principal and interest, we may say with propriety that the most important influences which national war and armament loans had upon local finances lay in the increase of local loans and the local loans expenditures. The following table is intended to prove the above statement:

(1) LOCAL LOANS, CLASSIFIED AS TO AMOUNTS FLOATED, REDEEMED AND OUTSTANDING[1]

Calendar Year	Amount Existing at Beginning of Year	Amount Floated	Amount Redeemed	Amount Existing at End of Year	Amount of Loans per Capita
	Yen	*Yen*	*Yen*	*Yen*	*Yen*
1890.....	....	....	....	720,301	0.018
1891.....	....	....	....	2,128,245	0.052
1892.....	....	....	....	4,279,692	0.104
1893.....	....	....	....	9,093,801	0.219
1894.....	....	....	....	10,061,253	0.240
1895.....	....	....	....	10,299,934	0.243
1896.....	....	....	....	10,518,414	0.246
1897.....	....	....	....	16,352,814	0.378
1898.....	13,738,161	8,229,044	1,702,725	20,264,480	0.437
1899.....	20,264,480	10,054,772	2,090,953	28,228,299	0.602
1900.....	28,228,299	10,084,018	582,844	37,729,473	0.793
1901.....	37,729,472	8,046,336	2,055,003	43,720,806	1.290
1902.....	51,240,972	23,057,661	13,118,278	61,110,255	1.346
1903.....	61,140,201	17,928,320	11,956,774	67,111,747	1.390
1904.....	65,690,172	7,846,440	8,544,104	64,992,508	1.346
1905.....	65,128,306	5,462,035	8,021,159	62,569,182	1.293
1906.....	62,470,955	21,843,407	6,729,002	77,585,360	1.606
1907.....	77,585,359	25,574,153	3,893,397	89,266,115	1.848
1908.....	89,266,115	19,641,779	9,084,270	99,823,624	2.067
1909.....	99,506,044	94,078,567	30,650,878	162,933,733	2.459
1910.....	163,539,902	12,689,017	7,766,719	168,462,200	2.616
1911.....	175,945,362	1,493,676	2,026,824	175,412,215	2.532
1912[a]....	183,375,245	130,344,077	17,817,472	295,901,850	5.568
1913[a]....	296,252,694	23,726,627	13,750,700	306,228,628	5.656

[a] Fiscal year.

The above table shows the remarkable increase of local loans after the Russo-Japanese War, especially at the time of national loans readjustment. Table 2 is intended to show what kind of loans were most abundantly issued.

This table shows that municipal loans witnessed an enormous increase after the Sino-Japanese War, and more especially after the Russo-Japanese War. Table 3 is intended to show what undertakings have brought about this increase, and whether domestic or foreign loans were resorted to for their resources.

Table 3 shows that the greatest cause of increase of local loans in recent times was the encouragement of industries. Next comes the civil engineering works after the Sino-Jap-

[1] Based upon *Reference Book Concerning Monetary Affairs*. The disagreement of the amounts existing at the beginning and at the end of each year is due to the fact that there was some later revision of figures in the so-called "Free Loans."

(2) Local Loans Classified According to the Administrative Districts[1]

Calendar Year	"Do", "Fu", "Ken" Loans	"Gun" Loans	City and Ward Loans	Town and Village Loans	"Kumiai" (Union) Loans	"Free" Loans	Total
	Yen	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*
1890	570,301	....	150,000	....	....	....	720,301
1891	1,263,481	....	863,112	1,652	....	....	2,128,245
1892	1,295,154	....	2,961,419	16,609	6,508	....	4,279,692
1893	1,529,507	....	7,501,644	19,230	43,418	....	9,093,801
1894	2,281,511	3,000	7,529,760	120,572	126,408	....	10,061,253
1895	2,209,945	2,500	7,820,960	128,240	138,288	....	10,299,934
1896	2,204,854	6,200	8,019,596	163,172	124,589	....	10,518,414
1897	4,500,148	21,479	8,732,123	236,920	247,489	2,614,652	16,352,814
1898	7,885,202	45,729	11,501,480	383,385	448,682	3,219,517	23,483,997
1899	8,672,639	62,646	18,276,755	491,949	724,308	3,629,904	31,858,204
1900	9,719,983	135,613	25,849,033	829,496	1,195,345	5,010,447	42,739,921
1901	10,379,664	339,348	29,796,663	1,517,454	1,687,674	7,520,166	51,240,972
1902	10,712,864	509,588	35,130,242	1,984,249	2,058,913	10,714,499	61,110,355
1903	12,076,497	890,045	38,463,137	2,599,752	2,516,820	10,565,496	67,111,747
1904	11,318,656	854,914	39,847,147	2,693,075	2,677,307	7,601,409	64,992,508
1905	10,483,635	819,364	40,045,666	3,100,754	2,819,521	5,300,242	62,569,182
1906	10,889,806	811,130	53,965,157	3,069,597	2,931,352	5,918,318	77,585,360
1907	12,608,104	881,721	62,954,592	3,810,195	3,198,035	5,813,477	89,266,124
1908	14,831,437	1,581,308	64,117,011	4,548,842	4,066,842	10,678,178	99,823,624
1909	15,164,451	1,470,953	125,430,810	4,972,391	4,018,735	11,876,310	162,933,650
1910	15,852,730	1,505,333	130,174,306	6,195,749	4,713,193	9,561,249	168,462,200
1911	34,462,943	1,369,647	237,733,327	8,504,972	5,267,312	8,564,649	295,901,850
1912	37,321,205	2,159,896	245,820,594	9,435,105	5,949,119	6,271,105	316,957,024

[1] Based on *Reference Book Concerning Monetary Affairs*, published by the Finance Department, and on *Local Loans Statistics*, published by the Home Department.

(3) Local Loans, Classified According to Object, and Amounts of Domestic and Foreign Loans for These Purposes[1]

Calendar Year	Civil Engineering Expenditures	Education	Sanitation	Encouragement of Enterprises	Redemption of Old Loans	Total	Domestic Loan	Foreign Loan
	Yen	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*
1893.....	9,078,300	9,881	4,000	....	1,620	9,093,801	9,093,801	....
1894.....	9,953,790	23,378	4,000	75,545	5,040	10,061,753	10,061,753	....
1895.....	10,187,912	25,316	2,600	75,545	8,559	10,299,934	10,299,934	....
1896.....	10,351,700	43,033	40,400	75,545	7,734	10,518,414	10,518,414	....
1897.....	13,490,746	105,395	37,540	75,045	29,434	13,758,161	13,758,161	....
1898.....	19,738,000	204,787	85,720	85,045	150,927	20,264,480	20,264,480	....
1899.....	27,599,226	232,295	85,480	170,444	140,852	28,228,299	28,228,299	....
1900.....	36,811,443	336,456	86,740	285,941	208,892	37,729,473	37,475,473	250,000
1901.....	41,365,164	1,624,656	18,144	477,797	235,045	43,720,806	43,470,809	250,000
1902.....	49,462,535	6,346,961	1,117,483	502,391	3,680,986	61,110,355	56,875,355	4,235,000
1903.....	33,004,121	7,456,353	10,640,948	2,716,356	13,293,966	67,111,747	62,876,747	4,235,000
1904.....	39,477,705	5,949,950	11,384,255	3,727,730	4,452,867	64,992,508	60,757,508	4,235,000
1905.....	38,086,822	4,272,481	11,685,886	3,822,402	4,701,590	62,569,182	58,334,182	4,235,000
1906.....	53,932,475	3,394,792	11,968,603	3,857,562	4,431,928	77,585,360	55,720,160	21,865,200
1907.....	51,650,859	4,903,654	12,162,057	12,946,142	7,603,403	89,266,115	67,400,915	21,865,000
1908.....	51,626,561	8,651,269	13,373,468	16,558,547	9,613,779	99,823,624	77,998,574	2,825,050
1909.....	51,457,256	11,847,143	22,010,253	8,442,743	69,176,338	162,933,734	85,560,567	84,964,850
1910.....	61,851,462	14,304,917	21,220,445	7,140,822	78,802,322	183,319,968	98,652,868	84,667,100
1911.....	73,560,463	14,158,561	16,743,716	107,000,516	84,438,594	295,901,850	119,809,165	176,092,685
1912.....	77,317,541	13,374,210	25,793,917	155,629,897	34,113,058	306,228,623	129,039,038	177,189,585

[1] Based on *Reference Book Concerning Monetary Affairs*, and *Local Loans Statistics*. Prior to 1892 the object of flotation can not be ascertained. The figures prior to 1901 do not include the amount of free loans.

anese War, and the readjustment of old loans after the Russo-Japanese War. The table also shows that, as in the case of national debts, domestic loans were first resorted to, and there was a gradual increase of foreign loans after the Sino-Japanese War, which tendency has been intensified after the Russo-Japanese War, until in recent times foreign loans have come to exceed domestic loans. The following table shows that local foreign loans were chiefly on account of the expenditures for the encouragement of municipal industries:

(4) LOCAL FOREIGN LOANS RAISED, REDEEMED AND OUTSTANDING[1]

Kind	Date of Sanction	Annual Rate of Interest	Amount Floated	Amount Redeemed	Amount Outstanding (End of 1911)
			Yen	*Yen*	*Yen*
Tokyo city undertakings loan	July, 1906	5%	14,580,000	....	14,580,000
Tokyo city electric undertakings loan	Feb., 1912	5%	89,564,085	....	89,564,085
Kyoto city undertakings loan	June, 1909	5%	17,550,000	....	17,550,000
Kyoto city undertakings loan (additional)	Dec., 1911	5%	1,950,000	....	1,950,000
Osaka city harbor construction loan	Sept., 1897	6%	3,085,000	34,500	3,050,000
Osaka city electric railway and water works undertakings loan	April, 1909	5%	30,220,000	....	30,220,000
Yokohama city water works undertakings loan	June, 1902	6%	900,000	180,100	719,900
Yokohama city undertakings loan	Aug., 1906	5%	3,108,800	....	3,108,800
Yokohama gas undertakings loan	March, 1909	6%	648,000	114,600	533,400
Yokohama city water works undertakings loan	July, 1909	5%	7,000,000	....	7,000,000
Nagoya city loan	May, 1909	5%	7,816,000	....	7,816,000
Total			176,421,885	329,200	176,092,685

The preceding tables have exhausted the statistics with regard to the increase of local loans. Table 5 is intended to show the increase of the local loan expenditures which was the natural consequence of the increase of local loans. The local loans expenditure includes the expenditures for the capital repayment and interest of loans and other miscellaneous charges; the greater part of the outlay, however, is absorbed by annual principal redemption and interest payment.

This table shows that local loans expenditure increased with every war until it occupied an important percentage of provincial expenditures.

[1] Based upon *Local Loan Statistics.*

(5) LOCAL LOANS EXPENDITURES[1]

Fiscal Year	"Fu" and "Ken" Loans Expenditures	"Gun" Loans Expenditures	Municipal Loans Expenditures	Town and Village Loans Expenditures	"Kumiai" Loans Expenditures	Total	Total Amount of Receipt of Local Taxes	Percentage Which Loans Expenditures Bear to the Preceding Column
	Yen	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*	
1892.....	554,608	2,237	160,038	365,023	....	1,081,906	31,324,311	3.2
1898.....	952,433	50,112	2,480,129	1,693,851	....	5,176,525	52,458,313	9.6
1902.....	3,726,142	140,846	3,803,797	6,018,863	457,064	14,146,712	107,642,054	13.0
1907.....	2,586,491	199,399	4,115,298	3,240,146	573,884	10,715,218	128,248,632	7.8
1908.....	3,195,330	308,795	7,402,138	4,772,123	642,337	16,320,723	136,700,227	11.7
1909.....	3,294,763	245,615	23,370,263	6,489,886	647,439	34,047,966	145,089,578	23.4
1910.....	5,261,244	238,335	15,421,901	7,615,387	1,738,480	30,275,347	153,618,880	19.6
1911.....	4,146,435	238,335	13,091,820	6,264,097	1,738,480	25,479,167	158,364,834	15.8
1912.....	4,937,881	223,952	12,810,861	5,559,744	838,219	24,370,657	172,927,810	14.1

[1] Based on *Imperial Statistical Year Book* and *Thirty-Ninth Annual Report of the Finance Department*. These, however, do not contain the figures for "Gun" loans expenditure and "Kumiai" loan expenditure for 1911, and the figures for 1910 have thereupon been inserted. Receipt out of local taxes does not include "gun" expenditure contribution.

CHAPTER III

EFFECTS ON THE MONEY MARKET

The flotation of any kind of public loan has some influence upon the money market of a country. In the case of war and armament loans, whether they be funded or unfunded, the effects upon the money market are especially great and speedy on account of the amount and despatch of their flotation. The effects extend over manifold fields, but especially noteworthy are the changes brought about in the banking system, coinage system, currency, prices of commodities, bank rate of interest, amount of specie and various modifications brought about in the municipal and rural money markets. Each of these will be treated in the following sections.

Effects on the Banking System

The primary effect upon the banking system of the redemption of government paper moneys issued on account of the Restoration and that of the utilization of public bonds was the establishment of national banks after 1872. At the beginning of the Restoration the so-called "Exchange Company" was the only commercial organ of monetary circulation. Moreover, on account of the imperfect organization of these companies, bankruptcies occurred in rapid succession. Such having been the case, an organ of monetary circulation suitable both for the government and the people was what was then keenly needed. Had this been the only defect, the establishment of an ordinary commercial bank would have complied sufficiently with the needs of the times. The circumstances of the time, however, were very complex. The inconvertible paper money issued by the government during the period extending from 1868 to 1872 for the pacification of the disturbances or for supplementing the deficits of the annual revenue reached the tremendous amount of over 80,000,000 *yen*, and

continued to increase. Unless, therefore, a measure for its redemption were to be speedily taken, there was no telling what financial and commercial crisis might be in store. Upon the return from America of Hirobumi Ito, an official of the Finance Department, the government adopted his proposal for the establishment of national banks, which was chiefly based upon the system of national banks in the United States, including a partial adoption of the American bank note system. The national banks were to be authorized to issue convertible bank notes. The National Bank Regulation was promulgated by Notification No. 349, November, 1872. The most important points of this regulation were as follows:

To found the national banks and to cause 60 per cent of the capital to be paid to the government in government paper money, for which the government was to deliver to the banks "Kinsatsu" exchange loan bonds issued for the redemption of government paper money. On the security of these loan bonds, bank notes of the same amount were authorized to be issued which the banks were required to convert into coins on demand. The aim and object of the regulation was to redeem the inconvertible paper money and to bring about a smooth circulation of currency. In anticipation of the applications for charters, the government manufactured bank notes amounting to 15,000,000 *yen* to be delivered in exchange for public bonds. There were, however, only a few banks which opened business in accordance with that regulation. The reason was simply this: From about 1874 there had been a constant outflow of specie, and the value of paper money underwent daily depreciation. If the national banks issued bank notes, specie conversion would immediately be demanded, and the bank notes would at once return to the bank. The bank received from the government only 6 per cent interest for the public bonds corresponding to 6 per cent of the capital, but no profit could be derived from bank notes. The already established banks experienced more and more difficulty in carrying on their business. At this juncture the government, with a view to disposing of the hereditary pension system, issued

hereditary pension bonds which, at length, reached the immense sum of 174,000,000 *yen*. Consequently their quotations daily suffered depreciation, throwing the nobles and "Samurai" class holding these bonds into an indescribable state of embarrassment. An urgent measure for their relief was needed. The government, therefore, authorized the employment of these bonds as security for the issue of bank notes, made much more liberal the conditions imposed on the issue of the bank notes, and enlarged the limitations hitherto put upon the "Kinsatsu" exchange bonds. By proclamation dated August 1, 1876,[1] the government made less vigorous the provisions regarding their exchange reserves. By this revised regulation the national banks were to deposit as security with the government public bonds to the amount corresponding to eight-tenths of their capital, for which bank notes of the same amount were to be printed by the government and issued by the banks, providing the exchange reserve with any kind of currency amounting to one-fourth of circulation. Thus the national banks were relieved from the restrictions concerning the issue of the bank notes, and could hold public bonds at large. On the other hand, the system of specie exchange, which had formed one of the stumbling blocks to the circulation of paper money, was mitigated, and exchange with government paper money was permitted, provided it was used as currency. This was undoubtedly not conducive to the speedy redemption of inconvertible paper money, but there was no alternative for the government to take.

Moreover, to hold public bonds was equal to possessing them as security reserve for inconvertible paper money, which in turn proved to be a preliminary step in the redemption of inconvertible paper money. Be that as it may, this revised regulation was very favorable to the national banks, and the holders of the hereditary pension bonds applied for the establishment of one bank after another. The Fifteenth National Bank was the largest of its kind.

The relation between the war loans with regard to the Sat-

[1] Regulation concerning new national banks.

suma Rebellion and the banking system is fully exemplified in the establishment of the Fifteenth National Bank. The said bank was a great institution with an authorized capital of 17,800,000 *yen*, which had been founded in 1877 with the object of meeting the government floating debts contracted in connection with the Satsuma Rebellion, by combining hereditary pension bonds possessed by nobles. As the said bank loaned the government bank notes corresponding to its actual capital 15,000,000 *yen*, the government conferred in exchange great privileges upon the said bank. It enjoyed, therefore, great influence in the center of the metropolis which greatly attracted the attention of the public. Thereafter, the enthusiasm for founding national banks sprang up throughout the whole Empire, and their number increased day by day.

On the authority of *Financial History of the Meiji Era*, the number of national banks in 1876 was only five, with a total capital of 2,500,000 *yen*, and with an issue of paper money of not more than 2,040,000 *yen*. In 1877 there were twenty-three newly authorized banks, with a total capital of 20,550,000 *yen*, and with an issue of paper money amounting to 18,144,880 *yen*. In 1878 there were ninety-eight newly authorized banks with a total capital figuring 12,185,000 *yen*, and with an issue amounting to 9,300,000 *yen*. In 1879 twenty-seven banks, with a total capital of 2,655,000 *yen*, and with an issue of 1,964,000 *yen*, were newly chartered. Thus the number of national banks rose to 103 in a brief space of time. Through the increase of capital of each bank after its foundation, the whole amount of paper money issued ultimately exceeded 34,430,000 *yen*, which was the limit set by the government. The government, therefore, forbade any more chartering of new national banks. The business of the national banks was thus put on a firmer basis and enjoyed high prosperity, as can be seen by the table inserted elsewhere. In consequence of the adoption of a uniform convertible notes system in 1882, by the promulgation of Bank of Japan Regulation, the National Bank Regulation was also revised in May, 1883. Through this revision the national banks were deprived of their privilege of issuing paper

money, and the term of their continuance as national banks was limited to twenty years, counting from the day of their respective establishments; and at the expiration of the terms each bank was ordered to complete the redemption of the already issued paper money. Further, it was left to the discretion of each bank whether or not it would continue its existence as an ordinary bank. The redemption of the already issued paper money was to be accomplished by purchase of public bonds with the reserve fund, which had been hoarded at each bank, the public bonds being required to be accumulated, until the expiration of the continuance of the banks, as a fund for the redemption of paper money. This was called the Redemption Fund, Class 1. Further, an amount corresponding to 2.5 per cent per annum, or 1.25 per cent per half year, against the issued paper money was to be deducted from the profit of every business year, which sum was to be deposited in the Bank of Japan. The Bank of Japan was then to purchase public bonds with money deposited by the banks. These bonds, together with interest on them, were to form the fund for the redemption of paper money. This was called the Redemption Fund, Class 2. The above two redemption funds were all deposited in the Bank of Japan, through the agency of which the paper money of all the national banks was redeemed. This was called the method of collective redemption. By a law of March, 1896, the expiration of the term of business was postponed to February, 1899, the term of circulation for the bank notes was fixed to terminate on December 9, 1899, and the term for their exchange was fixed at five full years counting from the termination of circulation.

The establishment of the Bank of Japan had something to do with the redemption of paper money. Over one hundred and fifty national banks had been scattered all over the country, controlling each locality, but there was no central banking institution. Each bank acted in its own sphere of influence, and concerted action of all the banks in adaptation to the circumstances of the domestic and foreign markets was impossible. The desirability of the establishment of such a central bank,

therefore, had already attracted the general attention of the business world. One thing, however, remained which required immediate attention. The government inconvertible paper money which had witnessed a sudden increase after the Satsuma Rebellion, together with the bank notes which had then been issued from various national banks, brought down the quotations of public loans and paper money. This, in turn, occasioned an advance of prices and money interest, accompanied by increasing efflux of specie. Such circumstances were the most important cause of the establishment of the Bank of Japan. The establishment of this bank had in view the following three important missions with regard to the redemption of paper money. The first was as an organ of unifying convertible notes by exchanging the government paper money into convertible notes. The second was to advance to the government a fund for the paper money redemption, that the latter might directly redeem its own paper money. The third was as agent for the collective redemption.

The Bank of Japan was organized by Notification No. 35, June, 1882 (Bank of Japan Regulation) with a capital of 10,000,000 *yen*. By Article 14 of the same regulation, the Bank of Japan was authorized to issue convertible bank notes. The issue of convertible notes commenced on May 9, 1885, in accordance with Notification No. 18, May, 1884.[1] The main points of the regulation were as follows:

(1) The convertible bank notes shall be issued by the Bank of Japan in accordance with Article 14 of the Bank of Japan Regulation and shall be convertible into silver coins (Art. 1).

(2) The Bank of Japan shall hold as an exchange reserve a reasonable amount of silver coins against the convertible bank notes issued (Art. 2).

(3) The convertible bank notes shall be available, without any hindrance, for taxes, customs duties and all other transactions (Art. 4).

(4) The Bank of Japan shall on demand convert the convertible bank notes at any time during business hours at its main and branch offices (Art. 6).

[1] Convertible Bank Notes Regulation.

In accordance with Notification No. 14, June, 1885, the conversion was commenced by disbursing specie (silver coins) out of the reserve fund, on and after January 1, 1886, and thus the conversion system was firmly established. This system of conversion, together with the method of collective redemption, greatly reduced the amount of government and bank paper money. In 1888 the figures were still as follows:

	Yen
1. Government paper money	52,115,148
Standard paper money	43,667,436
Subsidiary paper money	8,447,712
2. Bank paper money	27,000,000

Against this sum the remainder of the reserve fund which the government had accumulated was only 21,667,436 *yen*.

Some measure was necessary to cover this shortage of 22,000,000 *yen*. As for the subsidiary paper money, it could be exchanged for subsidiary silver coin. As for the bank notes, their gradual retirement by means of collective redemption had already been decided upon. But with regard to convertible notes, which were to be issued in exchange for them, it was impossible to provide enough specie reserve for their conversion. Unless, however, some new restrictions were to be imposed, it could not but help on the tendency to currency inflation. By Imperial Ordinance No. 59, July 31, 1888, the government made the following amendment to the Convertible Bank Note Regulation.

Article 2 provides against the issue of the convertible notes; the Bank of Japan shall provide the same amount of gold and silver coins, or bullion.

The Bank of Japan shall, aside from the preceding clause, be authorized to issue convertible notes to the limit of 70,000,000 *yen* on the security of government bonds, Treasury bills and other reliable bonds or commercial bills, but 27,000,000 *yen* out of the 70,000,000 *yen* under this clause shall be gradually issued to the extent of the amount of redemption of the paper money issued by the national banks on and after January 1, 1889.

In case the Bank of Japan considers that the condition of the market requires the increase of current money, the said bank

shall be authorized to issue, with the permission of the Finance Minister, convertible bank notes over and above the issue of the two preceding clauses on the security of government bonds, Treasury bills, and other reliable bills or commercial paper. In such cases the bank shall pay a circulation tax not lower than 5 per cent annum, the precise figures being decided by the Finance Minister from time to time. The Bank of Japan shall loan the government an amount not exceeding 22,000,000 *yen* for the redemption of government paper money, with interest at 2 per cent per annum, provided that it shall bear no interest after 1898.

The term and the annual amount of repayment of the loan provided for in the preceding section, shall be fixed by the Finance Minister.

By Law No. 34, May, 1890, the limit of the issue on the security reserve was raised to 85,000,000 *yen*, and at the same time the interest on 22,000,000 *yen*, which was the amount loaned for the redemption of government paper money, was dropped.

By this revision the convertible notes were able to fulfill the currency demand and yet not exceed it. They also could supersede the remaining government and bank paper money. To accomplish this purpose the Bank of Japan was granted the privilege of the fiduciary note issue, though the bank was ordered to loan the government 22,000,000 *yen* at a low rate of interest. The government added this sum to the reserve fund, in order to drive from circulation the government paper money. We have already referred to this loan as the loan for paper money redemption. This was undoubtedly one of the most remarkable influences which the redemption of government paper money had upon the system of the Bank of Japan.

During the Sino-Japanese War and Russo-Japanese War, the Bank of Japan often complied with the needs of temporary loans for war and armament, and continued to issue convertible notes beyond the legal limit. Moreover, by a law of 1899, revision was made of the system of security reserve,

raising its limits to 120,000,000 *yen*. Subsequent to the Russo-Japanese War a big amount of government loans had to be contracted on account of the government temporary loans, war loans and their conversion, whereby the issue beyond the legal limit became so much the greater.

The establishment of the Yokohama Specie Bank had a great deal to do with the redemption of inconvertible notes. The revision of the National Bank Regulation in 1876, together with the issue of hereditary pension bonds, gave rise to the tendency toward establishment of banks, and thus, in 1879, the monetary organs for domestic commerce became substantially adequate. With regard to foreign monetary organs, however, there were only two or three branch offices of foreign banks, which state of things caused great inconveniences and disadvantages to our foreign trade. Just then the increase of the circulation of paper currency brought about no small difference between silver and paper currency. As a result of this, an immense amount of metal flowed out of the country, and circulation of gold and silver within the home market remarkably decreased. Public bonds and paper money continued to depreciate. Such circumstances could not but have remarkable effects upon foreign commerce and domestic finance. The establishment of an organ with the double object of assisting money circulation and of maintaining and regaining specie was what was most needed at the juncture. Accordingly, in 1879, on the proposal of the Finance Minister, a foreign silver exchange was established with the object of facilitating the sale of silver and of arresting the rise of its value. The root of the malady, however, lay in the superabundance of paper currency. Therefore, without readjusting paper money, there was but slender hope of effecting a cure. In order to readjust paper money the regulation of specie was necessary. Thereupon, in accordance with National Bank Regulation of February 23, 1880, the establishment of the Yokohama Specie Bank was authorized, which opened for business on the 28th of the same month. By Imperial Ordinance No. 29, July, 1887, the Yokohama Specie Bank Regulation was promulgated.

At first its capital was 3,000,000 *yen*, one-third (1,000,000 *yen*) being contributed by the government in silver coins. Moreover, the government deposited with the said bank, out of the reserve fund of the national Treasury, a foreign documentary bill fund in order to encourage direct foreign exportation and also to regain specie, and ordered the bank to do documentary bill business. After the Yokohama Specie Bank Regulation was promulgated, the organization of the bank underwent a change, and its capital was increased to 6,000,000 *yen*. At the same time, the government ordered the bank to manage government money, public loans and government exchange at home and abroad, and also to extend accommodation in matters of government finance. On the abolition of the foreign exchange fund system in 1889 the government ordered the Bank of Japan to enter into a special agreement with the Specie Bank to the effect that the former bank should, at the low interest of two per cent per annum, rediscount the foreign bills of exchange held by the latter bank. Thus, the Yokohama Specie Bank, in collaboration with the Bank of Japan, assumed the mission of export trade encouragement and specie absorption. The above business can not be explained merely from the fact that the Yokohama Specie Bank served as a monetary organ in foreign trade. It served also as a financial organ for the maintenance and absorption of specie and for the facilitation of the payment of the principal and interest of public bonds. For instance, in March, 1886, this bank was ordered to manage the lottery, the repayment and payment of the principal and interest of the 7 per cent foreign loan (which had been floated for the disposal of the hereditary pension system), and the business of public loans. The number of occasions on which the bank transacted business relating to foreign countries during the Sino-Japanese and the Russo-Japanese Wars with regard to war and armament loans defies enumeration. In 1900 its capital was increased to 18,000,000 *yen*, and its business witnessed a remarkable development. The effects of war and armament loans upon private banks were not direct ones. Prior to the establishment of national banks

there had existed exchange companies, and similar monetary companies, which partook of the nature of private banks, though the privilege of paper money issue had been conferred upon them. By the promulgation of the National Bank Regulation in 1872, this privilege was taken away from those companies, and the use of the name of banks was also prohibited. In 1896, with a revision in the above regulation, ordinary private monetary companies were authorized to use the name of banks, and thus private banks came gradually to increase. In 1879 the establishment of national banks was forbidden on account of the already superabundant number. Consequently, private banks greatly increased. Further, by the revision of the National Bank Regulation in May, 1883, the privilege of issuing paper currency was taken away from the national banks, and after the expiration of the period fixed the national banks were allowed to continue their business as private banks. Consequently the national banks gradually redeemed the bank notes and changed themselves into private banks, which contributed in a great measure to the development of private banks. The development of private banks, therefore, had a great deal to do with the government paper money, inasmuch as the disposal of national banks brought about the development of private banks. Indirectly, the readjustment of war loans had no small effect upon the growth of private banks.

Moreover, the private banks which had taken the place of national banks fell under a special law from July 1, 1893, in accordance with Law No. 72, August, 1890,[1] and Law No. 73, August, 1890.[2] Once developed as an integrated system, they assumed the responsibility of collecting and distributing funds for the flotation, conversion and redemption of public loans, which had increased with each war. It was also not infrequent that they successfully carried on their business by receiving the deposits of the government and public bodies.[3] Lastly, the flotation and redemption of public loans had great

[1] Bank Regulation.
[2] Savings Bank Regulation.
[3] Cf. table, p. 156.

influence upon the money market of the country, inasmuch as it brought about the centralization of the fund. The banking system was centralized, and even ordinary banks showed a strong tendency towards amalgamation and concentration. The explanation is to be sought in the fact that the development of banking business decreased the number of main offices, while it increased their branches and detached offices. The capital stock of each bank on the average increased year after year especially after great wars.[1] To sum up the relation between war and armament loans on one hand and private banks

(1) DEVELOPMENT OF NATIONAL BANKS[2]

Calendar Year	Number of Banks	Paid-up Capital	Reserve Fund	Deposits Outstanding	Circulation of Bank Paper Money	Net Profit of Every Latter Half Year
		Yen	*Yen*	*Yen*	*Yen*	*Yen*
1873.....	2	2,440,000	....	2,867,437	1,362,210	93.551
1874.....	4	3,432,000	29,253	3,491,637	1,995,000	194,011
1875.....	4	3,450,000	62,002	1,470,812	1,420,000	184,015
1876.....	5	2,350,000	81,599	2,502,099	1,744,000	227,275
1877.....	26	22,986,100	137,080	4,506,676	13,352,751	1,311,260
1878.....	95	33,596,063	378,484	8,067,445	26,279,003	2,118,440
1879.....	151	40,616,063	971,817	16,226,511	34,046,006	3,073,378
1880.....	151	43,041,100	1,665,256	14,915,679	34,426,351	3,394,645
1881.....	148	43,886,100	2,716,909	19,583,542	34,396,818	5,851,262
1882.....	143	44,206,100	3,830,362	19,714,942	34,385,345	3,887,509
1883.....	141	44,386,100	4,259,590	24,223,429	34,275,736	3,163,631
1884.....	140	44,536,100	4,677,473	20,370,636	31,015,942	3,090,030
1885.....	139	44,456,100	5,130,210	27,476,921	30,155,389	3,047,740
1886.....	136	44,416,100	5,488,659	32,359,578	29,501,484	3,792,232
1887.....	136	45,838,851	6,019,654	33,439,309	28,604,133	3,419,281
1888.....	135	46,877,639	7,750,523	35,585,228	27,679,655	3,899,198
1889.....	134	47,681,380	9,609,590	36,429,441	26,739,205	3,888,163
1890.....	134	48,644,662	12,461,455	33,598,116	25,810,720	3,721,919
1891.....	134	48,701,100	13,730,893	40,214,394	24,869,508	4,091,295
1892.....	133	48,325,600	15,278,932	49,976,965	23,890,509	3,662,082
1893.....	133	48,416,100	16,071,768	59,833,610	22,756,119	3,730,779
1894.....	133	48,816,100	17,634,647	66,977,141	21,781,797	4,509,765
1895.....	133	48,951,100	19,209,040	74,999,390	20,796,786	4,447,803
1896.....	121	44,761,770	34,196,369	61,825,619	16,497,889	7,563,528
1897.....	58	13,630,000	6,057,020	27,766,196	5,024,729	1,447,198
1898.....	4	390,000	91,715	745,077	1,866,563	98,014
1899*.....	..	....	....	....	974,999	....
1900.....	..	....	....	....	483,933	....
1901.....	..	....	....	....	449,321	....
1902.....	..	....	....	....	431,576	....

* Expiration of the term of business.

[1] Cf. table above.

[2] Based on the *Financial History of the Meiji Era*. It is mentioned in the authority that though the total amount of bank paper money delivered is estimated at 35,136,860 *yen*, the amount disbursed by collective redemption amounted to 35,687,256 *yen*.

on the other: the former had indirect effects upon the latter, (1) in the establishment, (2) in the carrying on of their business, and (3) on the scale of their business. In illustration of the above statement, the statistics respecting the development of the national banks, Bank of Japan, Specie Bank, private banks and all the banks of the Empire are given in the preceding and following tables.

(2) AMOUNT OF BANK OF JAPAN CONVERTIBLE NOTES AND GOVERNMENT LOANS[1]

Calendar Year	Issue of Convertible Notes	Specie Reserve	Security Reserve	Issue Beyond the Legal Limit	Government Temporary Loans
	Yen	*Yen*	*Yen*	*Yen*	*Yen*
1885 (May)	2,645,440	2,806,883	....	....	12,000,000
1885....	3,653,272	3,008,572	644,700	....	15,066,205
1886....	39,976,365	24,066,787	15,694,577	....	36,882,892
1887....	53,469,092	31,594,193	21,874,898	....	36,790,808
1888....	65,822,252	45,074,543	20,747,709	....	23,081,755
1889....	79,108,652	57,409,299	21,699,353	....	10,271,243
1890....	102,931,766	44,622,413	58,309,353	....	32,000,000
1891....	115,734,545	63,178,333	52,556,212	....	32,000,000
1892....	125,843,363	81,158,265	44,685,098	....	32,000,000
1893....	148,663,128	85,928,516	62,734,612	....	32,000,000
1894....	149,813,700	81,718,291	68,095 409	....	51,530 000
1895....	180,336,815	60,370,797	119,966,018	34,966,018	71,500,000
1896....	198,313,896	132,730,192	65.583,704	....	76,000,000
1897....	226,229,058	98,261,473	127,967,585	42,967,585	28,831,132
1898....	199,399,901	89,570,239	107,829,662	22,829,662	22,000,000
1899....	250,562,040	110,142,169	140,419,871	20,419,871	24,500,000
1900....	228,570,032	67,349,129	161,220,903	41,220,903	40,200,000
1901....	214,096,766	71,358,371	142,738,395	22,738,395	77,200,000
1902....	232,094,377	109,118,817	122,975,560	2,975,560	76,850,000
1903....	232,920,563	116,962,184	115,958,379	....	56,849,200
1904....	286,625,752	83,581,226	203,044,526	83,044,526	154,849,200
1905....	312,790,819	25,595,026	197,195,793	77,195,793	178,624,200
1906....	341,766,164	147,202,125	194,564,039	74,564,039	134,695,333
1907....	369,984,111	161,742,132	208,241,980	88,241,980	78,482,157
1908....	352,734,272	169,504,514	183,229,758	63,229,758	75,753,603
1909....	352,763,201	217,843,275	134,919,926	14,919,926	99,508,649
1910....	401,624,928	222,382,465	179,242,463	59,242,463	147,390,292
1911....	433,399,116	229,154,220	204,244,896	84,244,896	205,591,202
1912....	448,921,708	247,023,380	201,898,326	81,898,326	154,513,877
1913....	426,388,708	224,365,880	202,022,828	82,022,828	127,672,664

[1] Based on the *Financial History of the Meiji Era, Materials for Reference with Regard to Tokyo Clearing House*, and the *Specie Investigation*. Government loans include Treasury bills and various temporary loans.

DEVELOPMENT OF PRIVATE BANKS AND SIMILAR COMPANIES[1]

Calendar Year	Number	Capital	Deposits Outstanding at End of Each Year
		Yen	*Yen*
1884	955	34,672,735	Unknown
1885	963	34,190,182	"
1886	969	33,360,329	"
1887	962	34,013,736	"
1888	941	32,779,650	14,527,993
1889	950	36,480,979	18,288,497
1890	974	40,083,791	25,337,978
1891	972	40,988,209	24,693,495
1892	1,003	42,262,619	33,238,685

DEVELOPMENT OF ALL BANKS OF THE EMPIRE[2]

Calendar Year	Number of Banks	Paid-up Capital	Deposits Outstanding at End of Each Year
		Yen	*Yen*
1893	663	62,916,100	107,963,306
1894	862	101,379,881	138,965,752
1895	1,012	127,695,210	191,135,400
1896	1,277	166,195,948	427,189,767
1897	1,505	208,790,931	375,144,677
1898	1,721	254,119,423	375,173,336
1899	1,942	286,133,308	564,312,407
1900	2,272	341,922,711	561,576,193
1901	2,359	361,207,456	555,233,352
1902	2,324	372,950,062	659,495,053
1903	2,275	374,685,764	714,258,117
1904	2,227	373,194,284	788,134,579
1905	2,230	382,148,879	1,337,897,673
1906	2,210	401,134,910	1,690,576,187
1907	2,201	444,204,041	1,662,881,003
1908	2,172	458,827,302	1,408,030,851
1909	2,152	477,550,154	1,543,779,573
1910	2,127	494,122,304	1,772,240,847
1911	2,143	523,109,357	1,740,776,659
1912	2,151	570,488,740	2,025,493,908

[1] Based chiefly on the *Financial History of the Meiji Era*, but the *Reference Book Concerning Monetary Affairs* and the *Imperial Statistical Year Book* have also been referred to.

[2] Based on *Reference Book Concerning Monetary Affairs* and *Imperial Statistical Year Book*. All kinds of banks are included, such as the Bank of Japan, Yokohama Specie Bank, national banks, Hypothec Bank, Provincial Hypothec Banks, Industrial Bank, Bank of Taiwan, Colonial Bank of Hokkaido, private banks, and savings banks. The table is confined to the figures after 1893, prior to which the banking system was still imperfect, and the above-mentioned statistics concerning the national and private banks nearly cover it.

NUMBER OF BRANCHES AND AVERAGE AMOUNT OF PAID-UP CAPITAL OF ALL BANKS OF THE EMPIRE

Calendar Year	Number of Main Offices	Number of Branches and Detached Offices	Ratio of Number of Branches and Detached Places of Business Against Number of Main Offices	Paid-up Capital	Average Amount of Paid-up Capital of Main Offices
				Yen	*Yen*
1893.....	663	166	0.25	62,916,100	94,896
1894.....	862	401	0.46	101,379,881	118,617
1895.....	1,012	556	0.54	127,695,210	126,181
1896.....	1,277	831	0.65	166,195,948	131,370
1897.....	1,505	1,094	0.72	208,790,931	138,711
1898.....	1,721	1,368	0.79	254,119,423	147,658
1899.....	1,942	1,720	0.89	286,133,308	147,339
1900.....	2,272	1,920	0.85	341,922,711	150,494
1901.....	2,359	2,025	0.89	361,207,456	153,119
1902.....	2,324	2,033	0.87	372,950,062	160,478
1903.....	2,275	2,055	0.90	374,684,764	164,697
1904.....	2,227	2,019	0.91	373,194,286	167,577
1905.....	2,230	2,090	0.94	382,148,879	171,367
1906.....	2,210	2,187	0.99	401,134,910	181,509
1907.....	2,201	2,369	1.08	444,204,041	201,819
1908.....	2,172	2,441	1.12	458,827,302	211,246
1909.....	2,152	2,476	1.15	477,550,154	221,910
1910.....	2,127	2,537	1.19	494,122,304	232,309
1911.....	2,143	2,680	1.25	523,109,357	244,101
1912.....	2,151	2,897	1.35	570,488,740	265,220

EFFECTS ON THE MONETARY SYSTEM

The monetary system of our country during the reign of Tokugawa Shogunate was based upon a gold and silver coin system, established in 1601 A.D. This system continued down to the last days of the Shogunate (for more than two hundred and sixty years). With the financial embarrassment of the Shogunate the quality of the coinage grew worse, and forged coins were found in circulation. Moreover, each clan issued all sorts of paper money with circulation within the four corners of each clan, which paper, too, witnessed great depreciation in value. The monetary system of Japan, therefore, had been thrown into a state of chaotic confusion before the Restoration. At the Restoration the government paid the keenest attention to the establishment of a monetary system. In

April, 1868, it decided upon the recoinage of old currency and set about the establishment of the mint. In November, 1868, a coinage law based upon the decimal system was established, by which silver was made the standard coin and gold was employed as a subsidiary. In November, 1870, the coinage of silver was commenced. In the beginning of 1871 a gold standard system was adopted by the proposal of Hirobumi Ito, an official in the Finance Department, who had then been sent on a tour of inspection to the United States. On May 10, 1871, a new coinage regulation was at last promulgated. At that time, however, Mexican silver was employed in commerce with Oriental countries, and it was convenient to employ silver in our foreign commerce. In view of this special circumstance, one *yen* silver coins, besides the standard coins, were minted under the New Coinage Regulation, for the purpose of commerce in the open ports.

Not only was the production of gold very meager in our country, but, as was stated before, inconvertible paper money which the government had issued for the pacification of the disturbances, annually increased, which was followed by a steady outflow of gold coins. This made the gold standard system very difficult to maintain. By Proclamation No. 12, May, 1878, one *yen* silver, which had been minted for commerce in the open ports, was permitted to be circulated in the country at large. In consequence, one *yen* silver coin became legal tender having the equivalent value to one *yen* gold coins. Accordingly our monetary system was changed from a gold standard system into a legal bimetallism, which was practically a silver standard system.

This virtual silver standard system was in danger of being degraded into a paper money standard system by the overissue of paper money at the Satsuma Rebellion, and by the consequent discrepancy in value between silver and paper. The readjustment of paper money was successfully completed in 1886, and an ordinary monetary system was reestablished. But the system thus restored was a silver standard, and the legal bimetallism was no more than nominal. The fluctua-

tions of silver in the foreign markets, therefore, could not but exert an immediate influence upon our economics and finances. Especially in 1892-1893, when silver saw a great depreciation on account of the adoption of the gold standard system by Austria, Russia, United States and India, great fluctuations of the rate of exchange impeded foreign commerce, raised the prices of commodities, encouraged speculation, and threw our economic world into a state of great confusion. With the depreciation of silver, national expenditures gradually increased. Therefore, the maintenance of the silver standard system was, it was feared, opposed to our economic and financial interests.

Thereupon, the government thought it necessary to investigate our monetary system, and it promulgated, by Imperial Ordinance No. 113, October, 1893, a regulation concerning the Board for the Investigation of the Monetary System. The said board further organized a special commission for the purpose, which finished its investigation in July, 1895. It was decided that there was no present need for the reform of the monetary system, but that there might be an opportunity for reform in the future. As to whether the gold standard system or some other system in such a case should be adopted, there was a diversity of opinion among the commissioners. The government, therefore, was obliged to maintain the *status quo*, though it had been very much in favor of the adoption of a gold standard system. With the outbreak of the Sino-Japanese War in 1894-1895, the government was obliged, or was in a position to realize its long cherished ideal, the adoption of the gold standard system. The circumstances which drove the government to adopt it were (1) the necessity of floating or selling war loans abroad, and (2) the receipt of a big sum of war indemnity from China.

The government, in order to raise loans in connection with the war, issued war loan bonds amounting to 120,000,000 *yen*, as a part of the estimated sum of 250,000,000 *yen*. But the actual subscription was only 85,000,000 *yen*. The remaining 35,000,000 *yen* was finally raised by a special issue to the

Deposit Section. The remaining estimated sum was not raised because of the certainty of acquiring the indemnity from China on the one hand, and because of the speedy conclusion of the war on the other. The special issue of 35,000,000 *yen* had to be sold abroad, which made the government, and the creditors also, conscious of the extreme inconvenience of the silver standard. Thus, the fact that unless the gold standard should be adopted foreign flotation or sale of bonds abroad could not be easily accomplished was brought home to the government. This was the effect which the war loan had upon the adoption of the gold standard system. Had there not been enough gold reserve, the adoption of a gold standard system would not have been practicable, and indeed this was the point which bothered the heads of the commissioners of the monetary system investigation. Just then the indemnity from China served to satisfy the needs, and afforded important facilities for the adoption of the system.

The payment of the indemnity on the part of China was decided upon by the treaty of peace at Bakan in April, 1895. It consisted of 200,000,000 *taels*, which was the indemnity for war expenses, 30,000,000 *taels* as a compensation for the return of Liaotung Peninsula, and an annual amount of 500,000 *taels* as an indemnity for garrison expenses at Weihaiwei. All these sums were to be converted into pounds and paid in London. Thus, our government was able to receive between October, 1885, and May, 1898, the indemnity for war expenses (with interest) amounting to £32,900,980, 7*s*., 7*d*., the indemnity for the return of Liaotung Peninsula amounting to £4,935,-147, 1*s*., 1*d*., and the indemnity for garrison expenses at Weihaiwei amounting to £246,757, 7*s*. (the annual amount was £82,252, 9*s*.), totalling £38,082,884, 15*s*., 6*d*.

As this acquisition of gold reserve prepared the way for the revision of the monetary system, the government submitted to the Diet the monetary law and other ancillary drafts, which met the approval of both houses, on March 26 of the same year. The monetary law, together with auxiliary laws Nos.

16–20, were promulgated and put into force on and after October 1 of the same year.

Prior to the establishment of the gold standard system the transfer of the indemnity was chiefly made by the purchase of silver, and the receipt of gold was accepted only with the object of averting the great losses to the national Treasury due to the fluctuations in the value of gold and silver bullion. When the adoption of the gold standard system was decided upon, in October, 1896, the method of transferring on indemnity was rapidly revised, and import of gold bullion was made chiefly in order to obtain gold reserve for the exchange of silver coins, which was required for the enforcement of the new monetary law.

Thus, during the period ranging from January 1, 1896, when the transfer of the indemnity was begun, to March 31, 1899, the money delivered to the Bank of Japan for the transfer of the indemnity amounted to £30,476,642, 5*s*., 4*d*. Of this sum the bills of exchange drawn amounted to £15,811,261, 10*s*., 2*d*.,[1] the purchase of silver stood at £3,090,504, 6*s*., 3*d*., and the receipt of gold was £11,574,876, 8*s*., 11*d*. Of this receipt of gold the amount actually transmitted on September 1, 1897, stood at £7,733,516, 17*s*., 9*d*., which the government at once minted into gold coins to serve as exchange reserve for one *yen* silver coins.

Our gold standard became firmly established by the receipt of the tremendous indemnity. This made it possible not only to pay a huge gold exchange, due to the excess of importation over exportation, which had continued for several consecutive years after 1896, but also to increase the circulation and reserve of the standard gold coins, thus putting an end to the circulation and reserve of silver coins in March, 1898. The following table affords sufficient explanation of the sudden increase of the circulation and reserve of gold coins, especially after 1896.

[1] This sum contains £4,386,000, proceeds of the sale of military loan bonds converted into the bills of exchange.

GOLD COINS AND GOLD RESERVE AFTER THE SINO-JAPANESE WAR[1]

Calendar Year	Circulation of Gold Coins	Gold Reserve	Total
	Yen	*Yen*	*Yen*
1893	5,740,456	21,806,200	27,546,658
1894	5,250,074	32,344,954	37,595,028
1895	5,162,280	31,510,800	36,673,080
1896	5,372,714	90,935,471	96,308,185
1897	16,574,579	96,913,262	113,487,841
1898	18,135,184	89,570,239	107,705,423
1899	19,359,553	103,142,169	122,501,722
1900	17,562,652	65,349,129	82,911,781
1901	18,220,150	68,858,371	87,078,521
1902	17,378,777	108,118,817	125,497,594
1903	20,492,832	116,962,184	137,455,016

To sum up what was said above, the chief cause of the revival of our gold standard system may be found in the Chinese indemnity, by means of which our country was able to provide sufficient gold coins and gold reserve for the exchange of one *yen* silver coins. The necessity of the gold system, which had been felt in connection with the flotation of the war loans, only formed an additional motive. With regard to the maintenance of the system, however, we must not lose sight of the great contribution toward it of the public undertakings loans floated abroad in 1900, nor of various other foreign loans floated in connection with the Russo-Japanese War.

The public undertakings loan of 1900 was raised in the foreign market because of the difficulty of domestic subscription. Of this, 54,900,000 *yen* was appropriated to national defense expenditures, viz., for purposes of armament. As shown by the figures for 1900-1901 in the preceding table, the gold coins and gold reserve within the country witnessed a great decrease as a result of excess of importation which had continued for several years. It was due chiefly to the money raised from foreign loans that they showed a slight recovery after 1902. Inasmuch as the majority of the foreign loans were for purposes of the expansion of national defense (armament loans) it

[1] Based on *Financial and Economical Year Book of the Finance Department* and *Ginko Tsushin Roku* (*Banker's Magazine*, Tokyo). Gold reserve is the reserve fund for the issue of convertible notes, and includes gold coin and bullion.

would not be a strained assumption to call them a link between the war and armament loans on the one hand and the gold standard system on the other.

Further, it was the foreign loans in connection with the Russo-Japanese War that furnished the most remarkable contribution in the direction of the maintenance of the gold standard system. The total amount of public loans floated in connection with the Russo-Japanese War, outstanding at the end of the fiscal year of 1906, stood at 1,627,000,000 *yen*, according to their issue prices. Of this, 583,000,000 *yen*[1] belonged to domestic loans and 1,044,000,000 *yen*[2] belonged to foreign loans. The war expenditures actually defrayed by war loans did not exceed 1,418,000,000 *yen*. There were also the department extraordinary affairs expenditures, amounting to 221,000,000 *yen*, and extraordinary military expenditures for post-bellum works, transferred to the general account, amounting to 137,000,000 *yen*. These expenditures, however, were defrayed by the continuation of increased taxation, and by the natural increase of the ordinary annual revenue. The fund raised by the flotation of the war loan, therefore, left a surplus of 210,000,000 *yen*, in round numbers. This is the surplus money in the national Treasury brought forward to each succeeding fiscal year after the fiscal year 1908, and a greater portion of it consists in gold coins deposited abroad. One half of it directly supports the gold standard system as specie reserve for convertible notes, while the other half indirectly checks the decrease of specie reserve as the foreign exchange fund. This specie abroad gradually decreased because of foreign payments—financial as well as commercial—but the government replenished it by occasional conversions of domestic war loans into foreign ones. In April, 1910, a 4 per cent French loan, amounting to Fr.450,000,000, was floated, and in May and August of the same year the third 4 per cent sterling loan, amounting to £11,000,000, was raised, both of which were

[1] The first, second and third Exchequer bond and extraordinary military expenditures loan.

[2] The first and second 6 per cent sterling loan, the first and second 4.5 per cent sterling loan, and the second 4 per cent sterling loan.

employed for the redemption of domestic loans, such as Imperial 5 per cent loans, navy loan, war loan and exchequer bonds. At the redemption of these loans, domestic 4 per cent bonds were, on request, delivered instead of cash, which gave rise to the increased issue of the third domestic 4 per cent loan. This was the most important contribution of foreign flotation or foreign conversion of war and armament loans toward the maintenance of the gold standard.

Thus, from the beginning of the war, no small amounts of foreign flotations, and afterward domestic war loans, were converted into foreign loans. The specie thus obtained was either deposited abroad or minted into coins. The remarkable increase of gold coins and gold reserve in 1906, and especially in 1910, is indicated by the following table:

GOLD COINS AND GOLD RESERVE AFTER RUSSO-JAPANESE WAR[1]

Calendar Year	Circulation of Gold Coins	Gold Reserve	Total
	Yen	*Yen*	*Yen*
1904	20,346,564	79,904,726	100,251,290
1905	24,565,488	145,284,369	169,849,857
1906	34,588,657	147,202,125	181,790,782
1907	24,078,410	161,742,131	185,820,541
1908	27,051,427	169,504,514	196,555,941
1909	28,672,309	217,843,275	246,515,584
1910	31,208,214	222,382,465	253,590,679
1911	33,969,969	229,154,220	263,124,189
1912	35,594,084	247,023,380	282,617,464
1913	37,348,230	224,365,880	261,714,110

The causes of the increase of the gold reserve were multifarious. The foreign flotation and foreign conversion of war loans, foreign subscription of local loans and debentures, or the purchase of foreign bills by the Bank of Japan, constituted the important factors. Against this, however, there were excess of importation for several consecutive years, the repayment and payment of capital and interest of the foreign loans, and the purchase of warships and arms from foreign countries. It was

[1] Based on *Financial and Economical Year Book of the Finance Department* and *Ginko Tsushin Roku* (*Banker's Magazine*, Tokyo). Gold reserve is the reserve fund for the issue of convertible notes, and includes gold coin and bullion.

mostly due to the subscription and conversion of foreign war loans that the maintenance and increase of the gold reserve was made in the face of these factors.

Effects on the Currency and Prices

In another monograph of this series[1] a full account is to be given of currency and prices. In this part, therefore, partly because of the limit of space and partly for the avoidance of repetitions, only a statistical summary is given.

It goes without saying that the issue and conversion of war and armament loans swelled the currency and led to the rise of prices.

From the Restoration to 1881 prices generally showed an advance, which was undoubtedly due to the increase of government paper money, the Restoration and the Satsuma Rebellion having greatly swelled the currency. From 1881 to 1887 prices were much lowered on account of the contraction of currency. From 1888 to 1893 prices rose with the gradual expansion of currency. This was due to the rise of enterprises encouraged by the specie influx and the fall of money interest as a result of the favorable balance of trade, which in turn was due to the completion of divers readjustments. The expansion of currency and the rise of prices in this period can be said to have no particular relation to the war and armament loans. But during the first half of the period from 1894 to 1900 the expansion of currency and the rise of prices were primarily due to the increase of temporary loans in connection with the Sino-Japanese War, and to the consequent increased issue of convertible notes beyond the legal limit; while during the second half of the same period the expansion of currency and the rise of prices were primarily due to the receipt of the indemnity, to the extension of the authority of the Bank of Japan with regard to the issue of bank notes on security reserve, to the consequent lowering of interest on the part of the Bank of Japan, and to the rise of the enterprising spirit.

From 1900 to 1903 there was a contraction of currency and

[1] *War and armament expenditures of Japan.*

CURRENCY AND PRICES[1]

Calendar Year	Government Loans	Paper Money and Convertible Notes	Circulation of Specie	Total Amount of Currency	Index No.
	Yen	*Yen*	*Yen*	*Yen*	
1868.....	....	24,037,390	....	24,037,390	..
1869.....	....	50,090,867	....	50,090,867	..
1870.....	....	55,500,000	....	55,500,000	..
1871.....	....	60,272,000	12,440,817	72,712,817	..
1872.....	....	68,400,000	39,307,394	107,707,394	..
1873.....	....	79,743,224	60,446,286	140,189,510	95
1874.....	....	93,897,304	59,108,881	153,006,185	99
1875.....	....	100,491,870	53,339,159	153,831,029	102
1876.....	....	106,891,583	56,800,761	163,692,343	102
1877.....	9,486,000	119,149,843	56,191,012	175,340,855	102
1878.....	15,000,000	165,697,598	56,297,184	221,994,782	100
1879.....	15,000,000	164,354,935	51,557,167	215,912,102	100
1880.....	15,000,000	159,366,837	44,627,243	203,994,080	93
1881.....	15,000,000	153,302,013	42,440,585	195,742,598	90
1882.....	15,000,000	143,754,363	46,622,128	190,376,491	90
1883.....	10,000,000	132,275,013	50,351,213	182,626,226	91
1884.....	12,000,000	124,396,176	53,581,787	177,977,963	94
1885.....	15,066,205	122,456,646	55,665,719	178,122,365	99
1886.....	36,882,892	136,852,146	38,330,610	175,182,756	96
1887.....	36,796,808	137,873,981	31,290,721	169,164,702	99
1888.....	23,081,755	140,184,977	37,362,555	177,547,532	103
1889.....	10,271,243	146,760,892	41,901,903	188,662,795	108
1890.....	32,000,000	162,015,201	51,256,594	213,271,795	113
1891.....	32,000,000	168,490,775	51,235,839	219,726,614	113
1892.....	32,000,000	170,562,117	46,224,004	216,786,121	116
1893.....	32,000,000	187,826,247	50,672,072	238,498,319	123
1894.....	51,530,000	185,000,044	62,712,241	247,711,285	132
1895.....	71,500,000	212,262,825	69,737,986	282,000,811 34,966,916 [a]	140
1896.....	76,000,000	224,187,957	76,185,729	300,373,686	153
1897.....	28,831,132	238,704,885	91,765,257	330,470,142 42,967,585 [a]	172
1898.....	22,000,000	204,678,190	80,941,508	285,619,698 22,829,662 [a]	161
1899.....	24,500,000	255,669,431	82,140,051	337,809,482 20,419,871 [a]	189

[a] Shows convertible notes issued on security reserve.

[1] Based on the *Financial History of the Meiji Era; Summary of the Circumstances Attending the Reform of Monetary System; Report of the Commission for the Investigation of the Monetary System; Materials for Reference*, by the Tokyo Clearing House, and the *Special Investigation*.

The government loans are based upon the *Special Investigation of the Finance Department*, and include exchequer bills and temporary loans of the government.

The total amount of currency is the aggregate sum of specie and paper money.

The index number prior to 1892 is based upon the report of the *Commission for the Investigation of the Monetary System*, and was calculated by putting the average prices of commodities in Tokyo from 1873 to 1877 at 100. The figures after 1892 are based on the *Investigation of the Bank of Japan*, putting the average price of the chief commodities within the country at 100.

CURRENCY AND PRICES—*Continued*

Calendar Year	Government Loans	Paper Money and Convertible Notes	Circulation of Specie	Total Amount of Currency	Index No.
	Yen	*Yen*	*Yen*	*Yen*	
1900.....	40,200,000	230,821,779	89,460,356	320,282,135 41,220,903 [a]	181
1901.....	77,200,000	216,155,858	92,610,211	308,766,069 22,738,395 [a]	170
1902.....	76,850,000	234,077,745	94,478,002	328,555,747 2,975,560 [a]	176
1903.....	56,849,200	234,859,918	98,231,864	333,091,782	187
1904.....	154,849,200	288,524,145	102,607,863	391,132,008 83,044,526 [a]	203
1905.....	178,624,200	314,676,557	116,857,137	431,533,694 79,195,793 [a]	217
1906.....	134,695,333	341,766,164	135,177,144	476,943,308 74,564,039 [a]	222
1907.....	78,482,157	369,984,111	138,452,757	503,436,868 88,241,980 [a]	237
1908.....	75,753,603	352,734,272	150,665,475	503,399,741 63,329,758 [a]	215
1909.....	99,508,649	352,763,201	159,214,164	511,977,365 14,919,926 [a]	214
1910.....	147,390,292	401,624,928	168,130,182	569,755,110 59,242,463 [a]	226
1911.....	205,591,202	433,399,116	174,637,603	608,036,719 84,244,896 [a]	235
1912.....	154,513,877	448,921,708	175,089,776	624,011,484 81 898 326 [a]	251

[a] Shows convertible notes issued on security reserve.

depression of prices which were chiefly due to the continuous efflux of specie caused by successive unfavorable balances of trade and the consequent contraction in money circulation. It must be admitted, therefore, that this phenomenon had little to do with war and armament loans. The unprecedented increase in currency and prices in the years extending from 1904 to 1907 was undoubtedly due to the enormous temporary loans in connection with the Russo-Japanese War, and also due to the issue of notes in unprecedented excess in order to have the fund raised by foreign war loans transferred to Japan. The period subsequent to 1908 was one of commercial crisis; there was a slight contraction of currency and a slight fall of prices. After 1910 there was a remarkable expansion of currency and a rise of prices, due to the increase of

temporary loans for the conversion of domestic and foreign loans, inclusive of war and armament loans, and due to the enormous amount of money raised by foreign loans and transferred to Japan. It was not long, however, before the reaction was felt in the economic and financial world. Thus the year 1912 drew to its close amid general depression.

Effects on the Rate of Interest

In the chaotic period of political renovation of the first years of Meiji it was only natural that money interest should have had no fixed standard by which to abide. Even though the paper money for war expenses had not been issued, the rate of interest would have been very high. During the period ranging from 1868 to 1873 the average bank rates of interest on secured loans ran from 14 per cent to 18 per cent per annum. This rate can not be assigned to the issue of government paper money. Though money interest slightly fell in 1875–1876, it rose again in 1877, the reason assignable for this rise being the fracture of credit and rise of prices which accompanied the increased issue of inconvertible paper money and bank paper money. How exorbitant were the interest rates at that time may be learned from the promulgation of the Usury Law by Notification No. 66, September, 1877, whereby a restriction was imposed that the interest on 100 *yen* or less should not exceed 20 per cent per annum; 100 *yen* to 1,000 *yen*, 15 per cent per annum; and from 1,000 *yen* upwards, 12 per cent per annum.

Notwithstanding these legal restraints, the interest rates rose by leaps and bounds, which was due to the issue of the reserve paper money and inconvertible notes. This high rate continued till 1881, when the readjustment work was commenced. The rise of money interest prior to 1881 may be clearly seen from the table on the opposite page.

When, in 1881, the readjustment of inconvertible paper money was entered upon, prices began to decline, followed by a

INTEREST ON LOANS IN TOKYO, 1868–1881 [1]

Calendar Year	Maximum	Minimum	Average
	Per Cent	*Per Cent*	*Per Cent*
1868	....	....	14.00
1869	....	....	13.50
1870	....	....	13.80
1871	....	....	14.00
1872	....	....	13.50
1873	....	....	12.80
1874	18.00	6.00	12.96
1875	18.00	7.00	11.80
1876	18.00	6.00	12.01
1877	12.00	9.00	10.00
1878	15.00	8.00	10.43
1879	15.00	8.00	12.16
1880	18.00	9.00	13.12
1881	18.00	7.20	14.06

fall in money interest. In 1886 the work of readjustment was brought to a successful conclusion, money circulation became more sluggish, bringing down money interest, and a convenient opportunity was offered, as has been noticed, for the flotation of the navy loan and for the consolidation of public loans. The decline of the rate of interest is indicated by the fact that at the time the Bank of Japan was established the rate of discount stood at 2.8 *sen* per diem, while in 1886 it fell to 1.35 *sen* per diem. The average rate of interest in the city of Tokyo in 1882 stood at 10.1 per cent per annum, and fell to 9.16 per cent in 1886 and to 8.74 per cent in 1887. The above may be looked upon as the influence of the issue and redemption of government paper money, *i.e.*, war loan, upon money interest. Subsequent fluctuations in money interest, however, can not be traced to the same cause.

Thus, in 1887, the fall of money interest, together with the commencement of the exchange of silver coins, brought about a favorable balance of trade, and with it the rise of enterprises.

[1] The figures prior to 1874 are based on the investigation of the Mitsui Bank, and the figures after 1875 on the investigation of the Tokyo Bank Association. The average shows the average of the twelve months of each year. The figures after 1875 are calculated on the basis of loans ranging from 1,000 *yen* to 10,000 *yen*.

Within a short time subsequent to 1890 a reaction came and money circulation became stringent, bringing about a sort of panic. The rich harvest of rice for 1890–1891 and the depreciation in silver coins from 1891 remedied the unfortunate tendency in foreign trade. The financial markets were again rejuvenated, money circulation became sluggish, and the fall of interest in 1893 was quite an unprecedented one. The following tables show the rate of interest at the main office of the Bank of Japan during the period extending from its establishment to 1893, and the rate of interest on loans in Tokyo City:

INTEREST RATE OF THE BANK OF JAPAN (MAIN OFFICE), 1882–1893[1]

(Sen Per Day for Every 100 Yen)

TABLE I

Revised Date	Days of Continuance	Time Loan	Rate of Discount of City Bills	Rate of Discount of Country Bills
		Sen	*Sen*	*Sen*
October 1, 1882	41	3.01 (11% per annum)	2.80	....
November 21, "	10	3.01 (11% " ")	2.60	....
December 1, "	102	2.74 (10% " ")	2.60	....
March 14, 1883	201	2.47 (9% " ")	2.40	....
October 1, "	59	2.19 (8% " ")	2.20	2.50
November 29, "	11	2.19 (8% " ")	2.10	2.30
December 10, "	138	2.19 (8% " ")	2.00	2.20
April 26, 1884	68	2.19 (8% " ")	1.80	2.00
July 3, "	14	2.19 (8% " ")	2.00	2.20
July 17, "	26	2.19 (8% " ")	2.10	2.30
August 12, "	99	2.33 (8.5% " ")	2.20	2.40
November 19, "	74	2.47 (9% " ")	2.40	2.60
February 1, 1885	60	2.74 (10% " ")	2.60	2.80
April 2, "	15	2.47 (9% " ")	2.40	2.60
April 17, "	111	2.19 (8% " ")	2.30	2.50
August 6, "	19	2.05 (7.5% " ")	2.00	2.20
August 25, "	191	1.92 (7% " ")	1.90	2.10
March 4, 1886	36	1.92 (7% " ")	1.80	2.00
April 9, "	24	1.73 (6.3% " ")	1.70	1.90
May 3, "	25	1.64 (6% " ")	1.60	1.80
May 28, "	25	1.51 (5.5% " ")	1.50	1.65
June 22, "	114	1.37 (5% " ")	1.35	1.50
October 14, "	8	1.53 (5.5% " ")	1.50	1.65
October 22, "	94	1.64 (6% " ")	1.60	1.80
January 24, 1887	345	1.51 (5.5% " ")	1.50	1.65
January 4, 1888	65	1.64 (6% " ")	1.60	1.80
March 9, "	63	1.59 (5.8% " ")	1.50	1.65
May 11, "	22	1.64 (6% " ")	1.60	1.80
June 2, "	83	1.73 (6.3% " ")	1.70	1.85
August 24, "	26	1.81 (6.6% " ")	1.80	1.90
September 29, "	97	1.86 (6.8% " ")	1.85	2.00
January 4, 1889	28	1.81 (6.6% " ")	1.80	1.95
February 1, "	18	1.75 (6.4% " ")	1.75	1.90
February 19, "	78	1.70 (6.2% " ")	1.65	1.80
May 8, "	24	1.75 (6.4% " ")	1.75	1.90
June 1, "	79	1.81 (6.6% " ")	1.80	1.95
August 19, "	15	1.86 (6.8% " ")	1.85	2.00
September 3, "	284	1.92 (7% " ")	1.90	2.10
June 14, 1890	128	1.78 (6.5% " ")	1.70	1.90

[1] Based on an investigation of the Bank of Japan.

TABLE II

Revised Date	Days of Continuance	Interest on Loans and Rate of Discount on Security	Rate of Discount of City Bills	Rate of Discount of Country Bills	Interest on Overdrafts and on Correspondence
		Sen	*Sen*	*Sen*	*Sen*
October 20, 1890.....	133	1.90	1.80	2.00	....
March 2, 1891.....	65	2.10	2.00	2.20	....
May 6, "	76	1.90	1.80	2.00	....
July 21, "	492	1.75	1.70	1.85	....
November 24, "	119	1.65	1.60	1.75	....
March 23, 1892.....	69	1.50	1.40	1.60	1.70
May 31, 1893.....	94	1.30	1.30	1.40	1.70
September 2, "	80	1.50	1.50	1.60	1.70
November 21, "	62	1.70	1.70	1.90	1.90

INTEREST ON LOANS IN TOKYO, 1882–1893[1]

Calendar Year	Maximum	Minimum	Average
	Per Cent	*Per Cent*	*Per Cent*
1882.....	13.00	7.20	10.10
1883.....	9.08	6.80	7.59
1884.....	15.00	10.25	10.92
1885.....	16.50	10.00	11.38
1886.....	10.50	7.06	9.16
1887.....	11.00	7.13	8.74
1888.....	12.00	8.00	9.66
1889.....	12.00	8.00	10.17
1890.....	12.15	9.07	10.50
1891.....	11.10	7.81	9.33
1892.....	9.18	7.37	8.37
1893.....	9.26	5.65	7.19

The fluctuations in money interest after the Sino-Japanese War were largely due to the vicissitudes of government and private enterprises and of foreign commerce. At the beginning of the war, however, the influence on interest caused by funded and floating war loans was by no means insignificant. Before the outbreak of the war the Bank of Japan, in anticipation of the hostilities, raised the rate of interest by one *rin* per diem.[2] On June 18, 1894, and in July, when the war broke out, the bank further raised the interest by 2 *rin* per diem.[3] By this time the government had contracted a temporary loan

[1] Based on an investigation of the Tokyo Association of Bankers.
[2] Daily interest one *rin* per 100 *yen*, *i.e.*, one *yen* per 100,000 *yen*.
[3] Cf. table above.

of 50,000,000 *yen* from the Bank of Japan as an urgent financial measure. This sum, together with the surplus brought over from the preceding fiscal year, had been appropriated for the war expenditures. Changes in interest after 1894 can be regarded as the result of the flotation of war loans, but the sluggishness of money circulation for several years, together with the completion of the banking system, the increase of the capital of banks, and the withdrawal of funds in anticipation of the war by means of the raising of the interest by the Bank of Japan, checked any unnecessary rise in interest. In 1895 a tremendous amount of war loans was floated, but there were no remarkable changes in the rate of interest during the same year. But after the war, in the first half year of 1896, the increased war loans at last began to affect the rate of interest. At the close of 1895 the war expenditures were estimated at 159,000,000 *yen*, which were disbursed out of the fund raised by public loans, amounting to 85,000,000 *yen*, to say nothing of the use of the surplus and the special accounts funds. Until May, 1896, the temporary loans from the Bank of Japan, and the fund advanced out of the several special accounts, remained still unredeemed. The government was obliged to make the Bank of Japan issue convertible notes to the amount of 50,000,000 *yen*, on depositing with the bank 50,000,000 *yen* out of the indemnity deposited in London. Moreover, the general rise of the enterprising spirit, which was witnessed from the beginning of 1895 in expectation of the victory, reached its climax with the receipt of the indemnity in the latter half of 1895. Prices ran up, and the balance of trade turned unfavorably. Just then there were rumors of failure in the rice and barley crops, and the financial world became quite alarmed. When the government tried to raise the remainder of the war loan, amounting to 35,000,000 *yen*, in March, 1896, the rate of interest in Tokyo ran as high as 7 per cent to 8 per cent, promising a gloomy prospect for the subscription. Therefore the government resorted to a special issue, delivering to the Deposit Section 25,000,000 *yen*, and the remainder, 10,000,000 *yen*, being floated in the market on eight occasions; notwith-

standing which the results could not have been worse, only 1,500,000 *yen* having been subscribed. As a result of the loan on the deposit of the indemnity the money circulation became sluggish. Prices rose, however, by the increased issue of convertible notes, which tightened the money market in July, and interest was raised by one *rin* at the end of September. In Osaka a certain bank suspended payment, and the year came to a close with great financial uneasiness. The Bank of Japan raised its interest by 2 *rin* on June 14, 1897. From that time to March 14 of the following year the rate of interest was raised on five occasions by the same bank. Interest on loans and the rate of discount on security was 2.7 *rin* per day, the rate of discount of city bills was 2.4 *sen* per day, and the interest on overdrafts stood at 2.9 *sen* per day.

In view of this financial distress the government decided to remedy the situation by the use of the indemnity. It set about the purchase of public loans with convertible bank notes, which the government got from the Bank of Japan upon deposit of the indemnity. Thus, from April, 1898, to October, 1898, the Bank of Japan purchased consolidated, war, navy and hereditary pension bonds, and imperial 5 per cent bonds, etc., which totalled 38,707,770 *yen*. As a result the monetary circulation became somewhat sluggish, and the rate of interest showed a tendency towards depreciation. The above facts show that increased issue and the redemption of war loans and temporary loans had something to do with the fluctuations of interest. In March, 1899, the Bank of Japan was authorized to increase the limit of issue on security reserve to 120,000,000 *yen*, with an addition of 35,000,000 *yen*. Just then the armament expansion program was in course of execution, and there were some indications that this prompted the increased issue of convertible notes in the form of temporary loans. On the whole, however, the Bank of Japan lowered of its own accord its rate of interest on several occasions in order to stimulate the enterprising spirit. As a result prices advanced, the balance of trade became unfavorable, and the efflux of specie seemed to know no bounds, thus reducing the specie reserve of the

Bank of Japan day by day. In June, 1900, the Boxer Uprising occurred, and our country despatched a big army in concert with the other powers. This gave rise to the increased issue of convertible notes as temporary loans for war expenditures. Prices and interest rose again. The efflux of specie became marked. The specie of the Bank of Japan decreased even to 60,000,000 *yen*, thus reducing monetary circulation to an alarming stringency, till it ended in the great panic of 1901. The tightness of money circulation since the latter half of 1900 put the banks on their guard—so much so that the smaller banks in the provinces were cut off from the supply of money and were reduced to bankruptcy. During 1901 the banks which suspended their payments in the Kwansai districts, headed by Osaka, numbered thirty-four, and an unheard-of confusion and turmoil was witnessed in the financial world. This also goes to prove the close connection between the war loans and fluctuations of interest.

With the decline of credit transactions the money market was gradually adjusted. With the opening of 1902 money circulation became a little sluggish, a favorable balance of trade returned, and the banks lowered the rate of interest. In March, 1902, the Bank of Japan lowered its rate of interest by 2 *rin*, and there was a lowering of 8 *rin* on five occasions by March of the following year. To sum up what was said before, from the outbreak of war to May 8, 1896, fluctuations in the rate of interest were brought about by war loans, and afterward by the issue of temporary loans connected with the Boxer Uprising in 1900–1901. The inflation of convertible notes and the consequent rise of prices gave rise to a marvelous increase in money interest in 1901. Other fluctuations in interest were brought about by other causes of which the receipt of indemnity played an important part. It lowered the interest and helped on the progress of enterprise to no small extent. Various tables concerning the money interest during the period to substantiate the above statements are given on the next two pages.

The condition of our economic world in 1903, the year previous to the outbreak of Russo-Japanese War, was that the

RATE OF INTEREST AT THE BANK OF JAPAN (MAIN OFFICE), 1894–1903[1]

Revised Date	Days of Continuance	Interest on Loans and Discount on Security	Rate of Discount of City Bills	Rate of Discount of Country Bills	Interest on Overdrafts	Interest on Correspondence
		Sen	*Sen*	*Sen*	*Sen*	*Sen*
January 22, 1894.....	17	1.8	1.8	2.0	2.0	...
February 8, "	130	1.9	1.9	2.1	2.1	...
June 18, "	38	2.0	2.0	2.0	2.2	2.2
July 26, "	350	2.0	2.1	2.3	2.3	2.3
July 12, 1895.....	423	2.0	1.9	2.2	2.2	2.2
September 7, 1896.....	280	2.0	2.0	2.3	2.3	2.3
June 14, 1897.....	58	2.7[a] / 2.3[b]	2.4[a] / 2.0[b]	2.3[b]	2.5[b]	2.5[b]
August 11, "	73	2.7[a] / 2.4[b]	2.4[a] / 2.1[b]	2.4[b]	2.6[b]	2.6[b]
October 23, "	109	2.7[a] / 2.5[b]	2.4[a] / 2.2[b]	2.5[b]	2.7[b]	2.7[b]
February 9, "	33	2.8[a] / 2.6[b]	2.5[a] / 2.3[b]	2.6[b]	2.8[b]	2.8[b]
March 14, "	208	2.9[a] / 2.7[b]	2.6[a] / 2.4[b]	2.7[b]	2.9[b]	2.9[b]
October 8, 1898.....	60	2.7[a] / 2.5[b]	2.4[a] / 2.2[b]	2.5[b]	2.7[b]	2.7[b]
December 7, 1898.....	65	2.5[a] / 2.3[b]	2.2[a] / 2.0[b]	2.3[b]	2.5[b]	2.5[b]
February 10, 1899.....	29	2.4[a] / 2.2[b]	2.1[a] / 1.9[b]	2.2[b]	2.4[b]	2.4[b]
March 11, "	32	2.2[a] / 2.0[b]	2.0[a] / 1.8[b]	2.2[b]	2.2[b]	2.2[b]
April 12, "	107	2.1[a] / 1.9[b]	1.9[a] / 1.7[b]	2.0[b]	2.1[b]	2.1[b]
July 28, "	105	2.0[a] / 1.8[b]	1.8[a] / 1.6[b]	1.9[b]	2.2[b]	2.2[b]
February 10, "	17	2.0[a] / 1.9[b]	1.8[a] / 1.7[b]	2.0[b]	2.1[b]	2.1[b]
February 27, "	22	2.1	1.9	2.2	2.3	2.3
December 19, "	91	2.2	1.9	2.2	2.4	2.4
March 20, 1900.....	29	2.4	2.1	2.4	2.6	2.6
April 18, "	91	2.6	2.3	2.6	2.8	2.8
July 18, "	609	2.7	2.4	2.7	2.9	2.9
March 19, 1902.....	100	2.5	2.2	2.5	2.7	2.7
June 27, "	98	2.3	2.0	2.3	2.5	2.5
October 3, "	67	2.1	1.8	2.1	2.3	2.3
December 9, "	99	1.9	1.7	2.0	2.1	2.1
March 18, 1903.....	472	1.7	1.6	1.9	1.9	1.9

[a] Individual. [b] Bank.

RATE OF INTEREST IN TOKYO AT ASSOCIATED BANKS, 1894–1903

Calendar Year	Daily Rate of Interest on Loans			Daily Rate of Discount			Daily Rate of Interest on Current Deposits			Daily Rate of Interest on Time Deposits		
	Max.	Min.	Average	Max.	Min.	Average	Max.	Min.	Average	One Month	Two Months	Three Months
	Sen	*Sen*	*Sen*	*Sen*	*Sen*	*Sen*	*Sen*	*Sen*	*Sen*	*Per Cent*	*Per Cent*	*Per Cent*
1894...	2.96	2.13	2.54	3.70	2.14	2.64	1.15	0.79	0.97	5.46	4.27	4.91
1895...	2.93	2.32	2.63	3.23	2.32	2.71	1.23	0.92	1.06	5.93	4.77	5.37
1896...	2.93	2.28	2.54	3.00	2.25	2.59	1.31	0.98	1.15	6.05	4.94	5.49
1897...	3.26	2.55	2.79	3.19	2.53	2.83	1.50	0.99	1.27	6.44	5.31	5.89
1898...	3.34	2.75	3.09	3.48	2.67	3.13	1.84	1.31	1.64	7.35	6.43	6.97
1899...	2.93	2.00	2.44	3.10	1.89	2.31	1.79	1.20	1.46	6.62	5.93	6.26
1900...	3.40	2.43	2.98	3.34	2.33	2.90	1.80	1.33	1.62	7.19	6.71	7.03
1901...	3.70	3.02	3.24	4.19	2.89	3.18	1.82	1.62	1.74	7.56	7.10	7.38
1902...	3.30	2.00	2.83	3.25	1.80	2.67	1.79	0.50	1.51	7.06	6.62	6.93
1903...	3.70	1.10	2.35	3.50	1.40	2.10	1.60	0.30	1.70	6.00	5.56	5.83

[1] Daily interest is to be calculated per 100 *yen*. If not a leap year, 3 *sen* per diem becomes 10.95 *yen*, or 10.95 per cent per annum.

RATE OF INTEREST FOR THE WHOLE COUNTRY, 1894–1903

Calendar Year	Interest on Loans[a]			Daily Rate of Discount[b]			Interest on Time Deposits[c]		
	Max.	Min.	Average	Max.	Min.	Average	Max.	Min.	Average
	Per Cent	*Per Cent*	*Per Cent*	*Sen*	*Sen*	*Sen*	*Per Cent*	*Per Cent*	*Per Cent*
1894.....	13.85	8.83	....	3.97	2.69	....	5.54	3.38	....
1895.....	13.95	9.21	....	4.02	2.83	....	5.81	3.86	....
1896.....	13.92	8.95	....	3.93	2.76	....	6.14	4.05	....
1897.....	13.86	9.68	....	4.05	2.83	....	6.47	4.20	....
1898.....	14.50	10.46	....	5.20	3.20	....	7.50	4.95	....
1899.....	12.90	8.80	10.46	3.78	2.51	3.05	6.90	5.70	6.28
1900.....	14.10	9.80	12.15	4.00	2.79	3.47	7.50	5.90	6.79
1901.....	14.40	11.60	13.09	4.06	3.35	3.70	7.50	6.80	7.23
1902.....	13.90	10.00	12.09	3.93	2.78	3.39	7.60	6.30	6.96
1903.....	12.60	9.00	10.90	3.45	2.43	2.91	6.90	5.50	6.15

[a] The rate of interest on loans prior to 100 is the annual rate on loans, amounting to from 1,000 *yen* to 10,000 *yen*, with the term fixed at three months, and made on the security on negotiable instruments. The interest rate on loans after 1900 is the annual rate on loans, between 5,000 *yen* and 10,000 *yen*, with the term fixed at three months, and on the security of negotiable securities and goods.

[b] The daily rate of discount is the rate on city bills discounted worth 100 *yen*.

[c] The daily rate on time deposits is the annual rate of interest on loans, with the term fixed at six months.

rice crop was abundant; the amount of foreign trade showed over 606,000,000 *yen;* the money interest was below 5 per cent per annum; the money market became more and more sluggish, and the subscription of company debentures came into vogue.

At the outbreak of the war more than 90 per cent of the war expenditures was covered by domestic and foreign war loans. The loans floated in the domestic money market were temporary loans for the replenishment of armament, extraordinary loans for the construction of warships and other vessels, extraordinary affairs expenditures loans and Treasury bills, totalling 200,000,000 *yen* in round figures.

The issues took place in 1904–1905 and gave rise to the increased issue of convertible notes, and burdened the domestic market. In the second place, the issues of exchequer bonds during 1904 amounted to 200,000,000 *yen* and those during 1905 amounted to 280,000,000 *yen*. The average sum monthly absorbed by the national Treasury out of the money market is calculated at 126,000,000 *yen*. The outbreak of war had been anticipated as early as October, 1903, when the negotiations with Russia threatened diplomatic rupture. The money markets both of Tokyo and of Osaka began the withdrawal of funds, and the rate of interest was raised by 3 *rin* per diem in

order to decrease the demand for funds. Therefore, when the declaration of war was made in February, 1904, no bank attempted to raise the rate of interest. In June of the same year, however, the 130th Bank of Osaka suspended payment, which was followed by a run on various banks in Osaka. The Bank of Japan raised the rate of interest by 2 *rin* per diem on July 1. On the other hand, the subscription of foreign loans amounted to a formidable sum, totalling 820,000,000 *yen* in round numbers, during the period ranging from May, 1904, to July, 1905, which was raised by the first and second 6 per cent loans and the first and second 4.5 per cent loans. In order to have the fund obtained by these loans transmitted to Japan, there was an increased issue of convertible notes. Our economic situation was greatly relieved by the Russian surrender of Port Arthur in January, 1905, and the interest showed a decline. The great victory at Mukden, followed by the decisive battle on the sea of Japan, animated the popular spirit and the stock market experienced a boom trade and industry became active which, together with a rise of prices, called forth a demand for funds. Money circulation became gradually tight, and the rate of interest in 1905 was higher than that of the preceding year.

The treaty of peace signed on September 5, 1905, fell short of the expectation of the nation, which gave rise to the depression of popular feelings and discouraged the enterprises which had just been stimulated. Demand for money came to a standstill. In November, 1905, a 4 per cent sterling loan amounting to 244,000,000 *yen* was raised. The exchequer bonds bearing high interest, which were to have been converted and redeemed out of this flotation, were converted into a domestic extraordinary military expenditures loan. The greater part of the fund raised by foreign loans was equivalent to a new subscription; the interest rate was thus declining. Simultaneously with this various private companies imported foreign capital, and local self-government bodies also introduced enormous foreign funds. These also played an important part in the expansion of domestic money circulation.

Encouraged by the plentiful supply of funds on the one hand, and by the enthusiasm for new enterprises on the other, the monetary world after the war fostered the enterprising spirit. This spirit manifested itself in the stock market in the latter half of 1906. Simultaneously an increase of capital was planned in various companies, such as cotton-spinning companies, sugar-manufacturing companies, fertilizer companies, etc. The hydro-electric industry made its first appearance. The subscription to the 99,000 shares (100 *yen* per share) offered by the South Manchuria Railways Company at its establishment reached 1078 times as much as the amount offered. From that time forward the mania for new enterprises grew more and more, and was manifested in many similar phenomena in every field, the number of new projects in 1907 being quite beyond enumeration.

The reaction, however, came through the slump of shares and stock in January, 1907. In February of the same year an ominous cloud appeared in Nagoya and its neighborhood, which advanced to Tokyo. In March several dealers in sugar in Tokyo and Yokohama became insolvent. In April the interest tightened by one *rin* or two *rin* per diem. In May a revulsion came in the money markets of the Kyushu, and a new relief movement appeared. In October the panic which occurred in America dealt a severe blow to our commerce with America, and the stringency of money circulation grew more and more.

The government again tried to mitigate it by the flotation of foreign loans. In March, 1907, it tried to float the remainder of the 4 per cent sterling loan amounting to £25,000,000. The changed situation in Europe did not favor this project, and the government was thrown back upon the flotation of 5 per cent bonds, amounting to 224,000,000 *yen*. By the flotation of this loan, 6 per cent foreign bonds amounting to £22,000,000 were converted. Thenceforward, in order to maintain the credit of our national loans, the government first converted 5 per cent domestic loans by three issues of 4 per cent domestic loans, totalling 278,000,000 *yen*, in February and March of 1910. Moreover, the sum to be transferred to the sinking fund was augmented. In April and May the conver-

sion of 5 per cent domestic loans, including the war loan, exchequer bonds, navy loan, etc., was effected by the flotation of 4 per cent French and sterling loans, totalling 282,000,000 *yen*. By this expedient not only were domestic loans converted into foreign loans, but there was also an increase of the amount of public indebtedness on account of the lowness of the issue price of the loans. Thus, in 1910 and 1911, a temporary sluggishness in money circulation came about, attended with a low rate of interest. Nevertheless, owing to the inflation of convertible notes, prices suddenly went up, stimulating bubble enterprises. Soon afterwards stringency of money circulation was brought about, which prevented the execution of government works and repressed private undertakings. Financial and economic development was checked, and there was nothing for it but to resort to the adjustment of public finance in order to bring about the contraction of currency and the fall of prices, and thus to regulate the monetary circulation. It was at this moment that the present reign commenced. The following table shows the fluctuations of interest from the Russo-Japanese War to 1912:

FLUCTUATION IN RATE OF INTEREST AT THE BANK OF JAPAN (MAIN OFFICE), 1904–1914[1]

Revised Date	Days of Continuance	Interest on Loans and Rate of Discount on Security	Rate of Discount of City Bills	Rate of Discount of Country Bills	Interest on Overdrafts and Correspondence
		Sen	*Sen*	*Sen*	*Sen*
July 2, 1904.....	170	1.90	1.80	2.10	2.10
December 19, "	179	2.10	2.00	2.30	2.30
June 16, 1905.....	270	2.30	2.00	2.50	2.50
March 13, 1906.....	49	2.10	2.00	2.30	2.30
May 1, "	6	1.90	1.80	2.10	2.10
July 1, "	521	1.90	1.80	2.10	2.10
December 14, 1907.....	517	2.20	2.00	2.30	2.30
May 4, 1909.....	101	2.00	1.80	2.10	2.10
August 13, "	151	1.80	1.60	1.90	1.90
January 11, 1910.....	55	1.60	1.40	1.50	1.70
March 7, "	569	1.40	1.30	1.30	1.50
September 27, 1911.....	96	1.60[a]	1.50	1.50	1.70
January 1, 1912.....	37	1.60[a]	1.50	1.50	1.70
February 7, "	238	1.70[a]	1.60	1.60	1.80
October 2, 1913.....	43	1.80[a]	1.70	1.70	2.00
November 14, "	599	1.90[a]	1.80	1.80	2.10
July 6, 1914.....	....	2.10[a]	2.00	2.00	2.30

[a] Minimum rate.

[1] Loans and discount on security after May, 1906, show loans and discount rate on security other than national loan bonds. Interest on loans and rate of discount on national loan bonds security are one *rin* lower.

RATE OF INTEREST IN TOKYO, 1904–1913

Calendar Year	Daily Rate of Interest on Loans			Daily Rate of Discount			Daily Interest on Current Deposits			Interest on Time Deposits		
	Max.	Min.	Average	Max.	Min.	Average	Max.	Min.	Average	One Month	Two Months	Three Months
	Sen	*Sen*	*Sen*	*Sen*	*Sen*	*Sen*	*Sen*	*Sen*	*Sen*	*Per Cent*	*Per Cent*	*Per Cent*
1904...	3.70	1.10	2.33	3.40	1.45	2.16	1.60	0.30	0.97	5.75	5.40	5.54
1905...	3.50	1.60	1.52	3.50	1.60	2.40	1.70	0.30	1.01	5.95	5.58	5.73
1906...	3.50	1.60	2.39	3.50	1.40	2.16	1.70	0.30	0.95	5.79	5.41	5.55
1907...	3.50	1.70	2.35	3.20	1.60	2.17	1.80	0.30	0.91	5.60	5.23	5.41
1908...	3.50	1.80	2.63	3.50	1.80	2.54	1.90	0.30	1.02	6.18	5.82	6.02
1909...	3.50	1.20	2.36	3.40	0.95	2.09	1.70	0.50	0.89	5.68	5.22	5.48
1910...	3.30	0.70	1.99	3.10	0.85	1.58	1.30	0.30	0.64	4.63	4.25	4.43
1911...	3.30	0.75	1.93	3.20	1.00	1.62	1.50	0.30	0.64	4.51	4.14	4.34
1912...	3.30	1.00	2.15	3.50	1.30	1.99	1.80	0.30	0.86	5.45	5.02	5.30
1913...	3.30	1.60	2.45	3.20	1.60	2.30	1.80	0.50	1.01	6.20	5.85	6.09

RATE OF INTEREST FOR THE WHOLE COUNTRY, 1904–1912

Calendar Year	Interest on Loans			Daily Rate of Discounts			Interest on Time Deposits		
	Max.	Min.	Average	Max.	Min.	Average	Max.	Min.	Average
	Per Cent	*Per Cent*	*Per Cent*	*Sen*	*Sen*	*Sen*	*Per Cent*	*Per Cent*	*Per Cent*
1904.....	12.3	9.0	10.74	3.39	2.48	2.94	6.4	5.6	5.98
1905.....	12.6	9.3	11.02	3.44	2.57	3.01	6.5	5.7	6.08
1906.....	12.4	8.4	10.27	3.36	2.25	2.77	6.5	5.5	5.93
1907.....	11.5	8.3	9.92	3.16	2.23	2.65	6.2	5.4	5.72
1908.....	12.2	9.2	10.79	3.33	2.47	2.94	6.6	5.5	6.08
1909.....	11.9	8.2	10.00	3.23	2.07	2.67	6.6	5.2	5.82
1910.....	10.7	7.1	8.70	2.87	1.79	2.28	5.8	4.4	4.97
1911.....	10.3	7.0	8.36	2.73	1.78	2.20	5.1	4.4	4.72
1912.....	11.2	7.5	9.00	3.10	1.98	2.41	6.3	4.6	5.20

EFFECTS ON THE SPECIE RESERVE ABROAD

In July, 1877, the government deposited in public offices stationed abroad, or in foreign banks, the foreign coins (specie) which had been received abroad. This fund was to be appropriated to the repayment of the principal and interest of foreign loans, the purchase of warships, or to the expenditures of government offices. Further, gold and silver bullion was purchased with this fund in the foreign market; sometimes it was transmitted home by bills of exchange. This was called "the foreign deposit in the reserve fund section in the national Treasury," and was the first attempt on the part of the government to accumulate specie abroad. Just then the amount

of receipts abroad was very scanty and was inadequate to meet foreign disbursements. With the enactment of the foreign exchange law, October, 1880,[1] the fund suddenly increased. In accordance with the object for which it established the Yokohama Specie Bank, the government deposited with the bank paper money amounting to 3,000,000 *yen*, which was set apart to serve as the fund for foreign documentary bills. The proceeds of the sale of such bills abroad, received in specie, went to the reserve fund, the object being the patronage and encouragement of direct exporters on one hand, and on the other the saving of any special remittances in order to repay foreign loans or to disburse miscellaneous expenses of the public officers stationed abroad. In 1882 this regulation was revised by the New Foreign Documentary Bill Regulation, by which the machinery of foreign exchange was extensively readjusted. With the enactment of a regulation in 1884 with regard to the drawing of bills of exchange by foreigners the system of foreign exchange was brought to completion. The main object of encouraging foreign exchange by advances out of the government reserve fund lay in obtaining specie abroad. The government proposed to accomplish this by changing paper money into bills of exchange. The paper money in the reserve fund consequently witnessed a great decrease, and in 1888 it was unable to meet the drawing of documentary bills. An expedient was resorted to whereby the fund to be paid abroad from the general account should be utilized for the documentary bills. The documentary bills of the direct exporters, however, were not infrequently delayed in the repayment abroad, thus causing great inconveniences to the government. The utilization of documentary bills on the part of direct exporters was abolished in 1888.

The foreign deposits of public offices abroad had hitherto been made in branch or detached offices of the Yokohama Specie Bank or reliable foreign banks. When, however, the branch or detached offices of Yokohama Specie Bank came gradually to be established in Europe and America, the whole

[1] Deposit Fund Regulation.

of the foreign deposits were transferred to the specie bank (except in China), and the specie bank was charged with the disbursements of the public officers. Thus, with the repeal of the regulation relating to documentary bills, foreign deposits were also abolished in 1889, and the final settlement was accomplished in March, 1890. The total amount of the receipts and disbursements from July, 1877, to July, 1890, was calculated at 86,003,719 *yen*, itemized in the following table:

RECEIPTS AND DISBURSEMENTS, JULY, 1877–JULY, 1890

Items	Receipts	Items	Disbursements
	Yen		*Yen*
Repayment for advance on documentary bills	65,161,431	Payment of principal and interest of foreign loans by exchange bills	19,771,640
Proceeds of rice and laminaria (seaweed) belonging to reserve fund	6,661,033	Payment for purchase of warships and other expenditures of governmental office by exchange bills	2,821,839
Receipt for payment of unfavorable exchange rate	9,565,011	Payment for purchase of gold and silver bullion	32,892,297
Interest on deposits	408,405	Money transmitted to Japan	4,899,850
Total	81,694,871	Miscellaneous expenditures	80,600
Money transmitted from Japan	4,308,848	Lost payment and money transferred to perpetual loan account	140,994
Grand total	86,003,719	Total	86,003,719

After the abolition of the deposits abroad the government received from China the aggregate sum of 355,980,000 *yen*, in round numbers, including the indemnity for war expenditures and compensation for the retrocession of the Liaotung Peninsula. The payment of the sum was made in London in English currency in several instalments. Upon the receipt of each instalment it was placed in the custody of the London branch of the Yokohama Specie Bank, which acted as the agent of the Bank of Japan. Thus the question of specie abroad sprang up

again. The appropriations of this indemnity may be summarized in the four items following:

1. The portion appropriated for purchase prices payable abroad for warships, rails, etc.

2. The portion of the indemnity which was to be appropriated to domestic expenditures. This was to be transmitted to Japan in English coins, bar gold or silver, or by exchanges, according to the circumstances of the money market.

3. If the condition of the money market was inopportune, the portion which was to be transmitted to Japan was to be deposited with our London agent of the Bank of Japan in sterling coins. The Bank of Japan was directed to issue convertible bank notes on the security of this reserve. The government borrowed and employed the notes *pro tempore*. The English coins were gradually exchanged for our currency, and paid back to the Bank of Japan.

4. The remaining portion, which was appropriated to the annual expenditures or other purposes, was preserved in the form of reliable bonds, etc., or deposited with the Bank of Japan for interest, according to the condition of the money market.

RECEIPTS, DISBURSEMENTS AND BALANCES, OCTOBER 1895–MARCH, 1903[1]

Calendar Year	Receipts	Disbursements	Remaining Sum (Specie Abroad)
	£ s. d.	£ s. d.	£ s. d.
1895	13,160,392.03.00	.....	13,160,392.03.00
1896	9,335,653.03.06	18,205,549.16.00	4,290,495.10.06
1897	7,963,981.12.03	10,151,220.02.02	2,103,257.00.07
1898	13,607,444.19.09	15,270,409.09.02	440,292.11.02
1899	9,199,006.08.09	9,158,664.13.08	480,634.06.03
1900	572,447.17.07	1,059,357.13.01	355,377.10.10
1901	78,185.16.03[b]	166,138.19.06[c]	443,330.14.01
1902	743,092.06.00	1,020,813.08.01	165,609.12.00
1903[a]	1,108,356.00.00	141,101.02.08	1,132,864.09.04
Total	55,684,269.07.04	54,551,404.18.00	22,572,253.17.09

[a] Until March only. [b] Loss in receipts. [c] Withdrawal of disbursements.

[1] This table, which is based on the *Financial History of Meiji Era*, vol. II, shows the total amount of receipts, disbursements and balances at the date when disbursements were actually made in London, in English money. They are not in accord with figures in the books kept in the national Treasury. See text on following page.

At that time the government decided to adopt the gold standard system, and no small amount of this indemnity was transmitted to serve as a specie reserve. Moreover, in April, 1899, the first 4 per cent foreign loan[1] was floated which, together with the sale of domestic loans, made the receipt of specie mount up to a big sum. The balance of the receipts and disbursements of the indemnity and the fund raised by foreign loans constitute the specie reserve abroad.[2]

The specie abroad after the Sino-Japanese War was based, in the main, upon the receipts and disbursements of the indemnity, but, since the fund raised by the public undertakings loans and the proceeds of the sale abroad of the war loans also augmented specie abroad, the specie abroad may be said to have some connection with the war and armament loans.

During the Russo-Japanese War the government floated foreign loans amounting to 82,000,000 *yen*. In the fiscal year 1910, 282,000,000 *yen*, in round numbers, was floated in the English and French markets for the conversion of loans into 4 per cent. With regard to the transmission and the appropriation of these foreign loans the government seems to have entered into some secret agreement with foreign capitalists. It was believed that the government was not only forbidden to have the fund transmitted in specie, but also was subject to the obligation always to deposit a certain amount of specie in foreign banks as security for foreign interest. The specie in question was not only appropriated to the repayments and payments of principal and interest of national loans, purchase of warships and torpedo boats and other government disbursements, but was delivered to the Bank of Japan to serve as specie reserve, in exchange for which bank notes were issued in order to meet the domestic payments. Furthermore, the specie received by the flotation of public loans and debentures in the foreign market was delivered to the Bank of Japan to enable the bank to replenish the specie abroad.

Hereupon, the specie abroad was divided into (*a*) specie abroad owned by the government and (*b*) specie abroad owned by the Bank of Japan. The specie amounted to a formidable

[1] For national defense and public work. [2] See table on preceding page.

sum, and its increase and decrease exerted no small influence upon the economic world.

GOVERNMENT-OWNED SPECIE ABROAD, 1904–1913[1]

Year	Amount	Year	Amount
	Yen		*Yen*
1904	147,000,000	1909	23,000,000
1905	209,000,000	1910	138,000,000
1906	229,000,000	1911	133,000,000
1907	71,000,000	1912	88,000,000
1908	96,000,000	1913	84,000,000
Average of the above five years	150,000,000	Average of the above five years	93,000,000

According to the publication of the government in the thirty-first session of the Diet the existing amount of specie on December 31, 1913, was as shown in the following table, which contains the amount and whereabouts of specie abroad.

AMOUNT OF SPECIE, DECEMBER 31, 1913

	Yen		*Yen*
Owned by national Treasury	86,000,000	At home	130,000,000
Owned by Bank of Japan	285,000,000	Abroad:	
		In England	204,000,000
		" France	26,000,000
		" America	7,000,000
		" Germany	4,000,000
			241,000,000
Total	371,000,000	Total	371,000,000

The existence of the specie abroad is due to the expansion of international indebtedness which made it both necessary and convenient to keep specie abroad by way of foreign disbursement. This, however, deprived convertible notes within the country of elasticity. The unfavorable balance of trade did not contract convertible notes, and prices went up instead of going down. Importation of goods was encouraged and exportation declined, thus increasing our international indebtedness. This necessitated the constant replenishment of specie abroad in order to provide for the disbursement of national expenditures and to protect the foreign trade and exchange fund.

[1] Held by the government in order to meet foreign disbursements. The specie possessed by the Bank of Japan was greater in amount, the part of which was employed as specie reserve. Its variations and the method of custody are not clear.

Monetary Distribution Between City and Country

It may be said that war on the whole brings about the prosperity of cities at the expense of the country, because war has a tendency to concentrate capital and labor in the former. Our country has been characterized by the constant centralization of financial and political power since the Restoration. After the Sino-Japanese and Russo-Japanese Wars monetary circulation centered in cities at the expense of the country. For instance, during the Russo-Japanese War 480,000,000 *yen* was raised from every district of the Empire by five issues of exchequer bonds, thus exhausting the resources of the country. Against this, 820,000,000 *yen* was raised by the flotation of foreign loans, one-half of which was kept abroad in order to meet the foreign disbursements on account of the war. The other half was transmitted home, only with the result of flooding the upper classes in the central cities with money. No small amount of the money, however, flowed out to the scene of action or to foreign countries, partly because of the several issues of the Treasury bills and the flotation of extraordinary military expenditures loans amounting to 310,000,000 *yen*, and partly because of payment of exchange due to the successive excesses in importation. In the meanwhile the resources of large cities became abundant through the employment of war loans and the centralization and amalgamation of banks, through the expansion of industries concerned with munitions of war, and through government enterprises. The money circulation of the provinces, on the contrary, had little share in this abundant distribution of capital. In addition a ormidable amount of special taxes was levied on several occasions, to the exhaustion of provincial resources. As a result the patriotic loan bonds which had been in the hands of provincials gradually centered in the cities.

Thus the amount of public loan bonds possessed by people of the capital and other large cities greatly increased, while those of the provinces decreased. When, after the war, the government redeemed the war loans, either out of the continu-

ation of increased taxation or by means of conversion, it was quite natural that the money delivered as repayment and payment of principal and interest was chiefly absorbed in the capital and other large cities. Thus, while the financial power tended to center in the capital and in other large cities, the provinces were left resourceless and without any prospect for recovery, which caused the crippling of credit and the depression of local industries. Now let us glance at the condition of monetary distribution over the whole country, when the war came to an end. In the paid-up capital of various companies, or in the distribution of national loan bonds, or in the comparison of the existing amount of bank deposit, some eight or nine prefectures that could boast large cities appropriated to themselves the better part of the amount. The interest rate in large cities was found to be much lower than the average interest rate of the whole country, while that of the other districts (twenty-nine prefectures) was much higher. The accompanying tables show various resources and money interest of Tokyo, Osaka, Kyoto, Yokohama, Kobe, Niigata, Nagoya and Fukuoka. Comparison is made with those of the whole country that the actual condition of monetary distribution may be clearly shown.

I.—Distribution of the Capital of Companies

Name of Prefectures	End of 1894		End of 1897		End of 1902		End of 1907		End of 1911	
	No. of Companies	Amount of Capital	No. of Companies	Amount of Capital	No. of Companies	Amount of Capital	No. of Companies	Amount of Capital	No. of Companies	Amount of Capital
		Yen		*Yen*		*Yen*		*Yen*		*Yen*
Tokyo	175	58,457,554	445	291,663,663	863	289,269,504	1,145	416,108,354	1,639	640,265,183
Osaka	203	18,725,743	591	116,447,920	475	70,586,584	705	12,433,496	762	171,354,325
Kyoto	64	2,163,744	285	34,470,282	356	24,918,229	340	29,971,505	376	34,751,547
Hyogo	151	12,123,936	478	58,196,073	533	63,993,026	627	58,811,191	828	75,507,730
Aichi	81	2,216,479	440	33,364,718	500	24,307,598	498	32,334,988	865	53,050,831
Niigata	119	1,333,255	257	13,877,586	325	25,355,047	314	46,804,603	376	61,754,250
Kanagawa	42	1,659,422	116	32,972,785	199	41,999,454	274	62,072,354	366	81,673,512
Fukuoka	58	15,136,116	167	50,713,469	216	70,790,072	252	18,283,079	312	37,294,750
Total	893	111,816,249	2,779	631,706,496	3,467	611,219,714	4,155	788,705,570	5,524	1,155,652,128
The whole country	2,104	148,353,118	6,077	852,972,107	8,611	878,763,222	10,087	1,114,224,818	13,031	1,549,963,833
Ratio between above-mentioned 8 prefectures and the whole country	75%		74%		69%		70%		74%	
Other 29 prefectures	25%		26%		31%		30%		26%	

2.—Distribution of National Loan Bonds

Names of Prefectures	End of 1895	End of 1897	End of 1902	End of 1907	End of 1910
	Yen	*Yen*	*Yen*	*Yen*	*Yen*
Tokyo	160,560,829	169,558,407	235,549,008	434,141,681	511,227,210
Osaka	20,636,397	23,188,495	250,066,388	104,403,035	182,894,525
Kyoto	18,023,731	16,791,968	16,314,485	33,703,491	33,061,535
Hyogo	7,018,059	8,196,186	....	....	....
Aichi	9,540,988	14,290,584	18,433,298	54,630,880	51,852,900
Niigata	5,480,325	3,799,269	3,448,035	8,076,108	10,485,450
Kanagawa	7,254,224	6,654,159	....	....	....
Fukuoka	2,940,439	2,059,904	6,919,595	19,917,527	22,805,190
Total	231,454,992	244,538,971	305,730,809	654,872,722	812,326,810
London	....	53,868,450	55,233,050	90,921,500	114,795,975
Home	311,295,910	320,889,528	364,246,326	793,611,685	950,600,940
Eight prefectures	74%	76%	83%	82%	85%
Other prefectures	26%	24%	17%	18%	15%

3.—Deposits of Gold and Silver in Bank[1]

Calendar Year	Tokyo Associated Banks	Yokohama Associated Banks	Osaka Associated Banks	Nagoya Associated Banks	Total	Private and National Banks of Whole Country	Ratio
	Yen	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*	*Per Cent*
1897	6,547,224	....	4,232,195	....	10,779,419	40,779,369	25
1898	7,665,354	2,501,731	4,137,378	500,232	14,804,695	41,548,315	34
1899	7,792,797	2,401,815	5,457,149	646,533	16,298,294	51,113,218	31
1900	9,029,299	3,636,747	5,303,803	753,855	18,723,704	53,889,175	33
1901	11,045,080	3,399,283	5,500,470	780,899	20,725,732	57,242,173	35
1902	16,871,025	3,202,125	5,277,882	869,488	26,220,520	65,012,154	40
1903	19,723,075	3,301,601	7,454,057	878,967	31,357,700	67,555,971	46
1904	14,410,247	4,807,788	9,770,533	911,244	29,899,812	75,239,354	38
1905	22,408,429	5,798,238	12,157,252	1,154,279	41,518,198	84,873,050	48
1906	28,879,819	6,947,470	12,458,983	1,959,550	50,245,822	110,220,987	45
1907	32,568,012	7,114,832	12,044,519	1,475,025	53,202,388	104,863,006	50
1908	31,763,172	5,876,665	13,062,535	1,423,395	52,125,767	106,050,091	49
1909	36,743,166	6,420,416	16,444,076	2,765,919	62,573,577	105,388,047	59
1910	35,417,615	6,550,147	18,766,999	2,081,495	62,816,256	111,667,228	55
1911	30,310,006	5,445,067	16,126,747	2,657,603	54,539,423	116,710,759	46

[1] Based on *Tokyo Associated Banks Weekly*, *Osaka Associated Banks Weekly*, *Reference Book Concerning Monetary Affairs*, and *Imperial Statistical Year Book*.

4.—Distribution of Bank Deposits[1]

Ordinary Bank

Prefectures	End of 1895	End of 1897	End of 1902	End of 1907	End of 1911
	Yen	*Yen*	*Yen*	*Yen*	*Yen*
Tokyo	52,629,619	104,425,310	141,357,037	251,272,658	342,867,525
Kanagawa	5,903,761	13,937,110	17,167,212	35,349,032	43,514,644
Aichi	7,007,623	20,725,441	28,286,047	50,646,014	62,397,917
Niigata	2,627,744	5,997,033	10,179,770	15,611,958	21,285,128
Kyoto	8,666,859	20,661,429	27,191,280	43,222,026	57,648,713
Osaka	30,494,277	56,402,804	73,416,462	125,094,197	170,098,984
Hyogo	7,135,877	17,472,723	30,916,154	53,528,488	77,176,741
Fukuoka	2,264,665	7,845,179	12,193,954	19,450,108	20,951,049
Total	116,730,425	247,467,029	340,707,916	594,174,481	795,940,701
Total for the whole country	167,430,573	392,033,993	536,702,802	908,257,217	1,256,247,545
Eight prefectures	69%	63%	62%	65%	63%
Other prefectures	31%	37%	38%	35%	37%

Further Deposits in Tokyo

Deposit Bureau	50,760,774	28,352,728	100,686,354	186,043,563	247,688,021
Bank of Japan	6,653,909	78,109,995	18,887,799	220,286,956	133,658,573
Industrial Bank	....	....	1,108,213	10,072,688	4,780,800
Total	57,414,683	106,462,723	120,685,366	406,403,207	286,125,394
Grand total for the 8 prefectures including deposits in Tokyo	174,145,108	353,929,752	461,393,284	1,000,577,688	1,182,066,095
Grand total for the whole country including deposits in Tokyo	224,845,256	498,496,716	657,388,170	1,314,660,424	1,642,372,929
Eight prefectures	77%	70%	70%	76%	72%
Other prefectures	23%	30%	30%	24%	28%

5.—Maximum and Minimum Rates of Interest on Bank Loans, in December of Each Year[2]

Prefectures	December, 1895	December, 1897	December, 1902	December, 1908	December, 1912
	Per Cent	*Sen*	*Per Cent*	*Per Cent*	*Per Cent*
Tokyo	8.5– 9.5	2.79–3.19	5.0–12.7	6.7–12.7	6.0–13.2
Yokohama	8.9–10.6	2.90–3.20	6.0–13.0	1.0–13.0	5.2–12.0
Nagoya	5.0–11.0	2.90–3.00	6.9–10.5	8.4–10.0	6.9–11.3
Kyoto	8.0–12.0	2.60–3.20	6.6–12.7	7.5–12.0	6.2–10.2
Osaka	9.1–11.5	2.60–3.50	5.0–12.0	5.0–12.2	6.2–12.0
Kobe	9.5–11.7	3.00–3.50	6.2–12.0	6.0–11.0	6.0–10.5
Niigata	8.8– 9.5	3.00–4.00	8.4– 9.5	9.0–10.2	8.2– 9.5
Fukuoka	9.0–12.0	2.90–4.00	10.0–13.0	9.9–11.0	7.5– 9.0
Average of the whole country	9.3–13.3	3.17–4.05	10.0–12.6	9.6–12.0	8.2–11.2

[1] This table is based on *Imperial Statistical Year Book.*
[2] Based on *Imperial Statistical Year Book.*

CHAPTER IV

EFFECTS ON INDUSTRIES

The effects of war and armament upon industry are both immediate and conspicuous, and are supported by facts and statistics. But the effects of the issue, redemption, etc., of war and armament loans upon industry are not so direct and immediate. Inasmuch as the issue and redemption of war and armament loans exerted an influence upon prices and monetary circulation, as was stated before, it was quite natural that these changes in prices and monetary circulation in turn should have some effect upon foreign commerce, enterprises and stocks. Especially in the Russo-Japanese War a greater part of the loans were floated abroad. The introduction of foreign capital, and the conversion or redemption of loans had, therefore, no small effects upon the amount of foreign commerce, enterprising schemes and the stock market.

Effects on Foreign Trade

The issue and conversion of war and armament loans, together with the simultaneous vicissitudes of enterprises, and fluctuations of prices and of monetary circulation, exercised a very great influence upon our foreign commerce. The political changes of the Restoration terminated the national isolation policy, which had been adopted by the Tokugawa Regency, and established a policy of opening the country to foreign commerce. This brought about a wonderful change in our national life at large, and for one thing it gave rise to the demand for foreign goods. Especially the increased issue of the government paper money which attended the civil disturbances rapidly pulled up prices and kept up the excess of importation over exportation for several successive years with the consequent efflux of specie. This tendency of excess of importation temporarily disappeared in 1876. When, in 1877,

the Satsuma Rebellion occurred, causing increased issue of new paper money and bank notes, the currency was remarkably inflated, general prices went up higher, and the excess of importation and the specie efflux did not cease until 1881.

In 1881 the government set about the adjustment of paper money and the curtailment of expenditures. As a result the currency contracted, and prices gradually went down. No excess of importation was witnessed until 1889, and specie tended to flow in. There was a temporary reaction in 1890, when there was an excess of importation, and specie flowed out. In 1891, however, the rice crop was abundant, and there was also a remarkable depreciation of silver currency, which brought about a great excess of exportation with an inward flow of specie, which state of things continued till 1893.

In 1894 a great sum of temporary loans and military loans was floated. As a result a great amount of convertible notes was issued and there was a temporary stringency of monetary circulation. When, as a result of successive victories of our forces both on land and sea, the reception of the indemnity was reported, it gave rise to a strong enterprising spirit and to the increase of exportation. The importation of merchandise, however, was still greater. In 1899 the expansion of the security reserve of the Bank of Japan brought down the rate of money interest. In 1900 in connection with the Boxer Uprising there was an increased issue of convertible notes which brought up prices. The excess of importation, nevertheless, increased every year. The existence of the indemnity fund brought about an influx of specie, and prices continued to rise. The excess of importation, however, continued as ever.

At the outbreak of the Russo-Japanese War in 1904, resort was had to the domestic issue of exchequer bonds and temporary loans, which caused a stringency of monetary circulation and a rise of prices. Shortly afterwards a great amount of foreign loans was floated. Exchequer bonds, domestic loans, etc., were redeemed by a further increased issue of foreign loans, and a great amount of convertible notes was issued.

This not only caused inflation of currency and the rise of prices, but also—in conjunction with the transfer of funds raised by the foreign loan—tended to encourage the importation of foreign articles. Therefore, with the expansion of the total volume of foreign trade, there was an annual excess of importation, showing, in 1905, a balance of 167,000,000 *yen*.

EXPORTATION AND IMPORTATION OF MERCHANDISE, GOLD AND SILVER[1]

Year	Merchandise Exported	Merchandise Imported	Excess of Importation of Merchandise	Exportation of Gold and Silver	Importation of Gold and Silver	Excess of Exportation of Gold and Silver
	Yen	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*
1868.....	15,553,473	10,693,072	4,860,401 *	....	....	....
1869.....	12,908,978	20,783,633	7,874,655	....	....	....
1870.....	14,543,013	33,741,637	19,198,624	....	....	....
1871.....	17,968,609	21,916,728	3,948,119	....	....	....
1872.....	17,026,647	26,174,815	9,148,168	4,480,896	3,691,510	789,386
1873.....	21,635,441	28,107,390	6,471,949	5,122,927	3,080,542	2,042,385
1874.....	19,317,306	23,461,814	4,144,508	13,995,202	1,071,731	12,923,471
1875.....	18,611,111	29,975,628	11,364,517	14,663,971	298,322	14,365,649
1876.....	27,711,528	23,964,679	3,746,849 *	10,675,701	8,267,241	2,408,460
1877.....	23,344,522	27,420,903	4,072,381	9,441,271	2,173,499	7,267,773
1878.....	25,988,140	32,874,834	6,886,694	8,328,653	2,189,101	6,139,552
1879.....	28,175,770	32,053,002	4,777,232	12,778,864	3,134,804	9,644,060
1880.....	28,395,387	36,626,601	8,231,214	13,222,993	3,638,230	9,584,763
1881.....	31,058,888	31,191,246	132,358	7,490,547	1,856,147	5,634,400
1882.....	37,721,751	29,446,594	8,275,157 *	4,430,198	6,160,724	1,730,526 *
1883.....	36,268,020	28,444,842	7,823,178 *	3,156,565	5,451,501	2,294,936 *
1884.....	33,871,466	29,672,647	4,198,819 *	5,005,072	5,611,759	606,687 *
1885.....	37,146,691	29,356,968	7,789,723 *	4,256,446	7,546,841	3,290,395 *
1886.....	48,876,313	32,168,432	16,707,881 *	9,626,448	9,171,874	454,574
1887.....	52,407,681	44,304,252	8,103,429 *	11,035,488	8,871,266	2,164,222
1888.....	65,705,510	65,455,234	250,276 *	7,833,444	8,732,492	899,048 *
1889.....	70,060,706	66,103,767	3,956,939 *	5,188,529	14,173,246	8,984,717 *
1890.....	56,603,506	81,728,581	25,125,075	13,778,531	1,200,607	12,577,924
1891.....	79,527,272	62,927,268	16,600,004 *	14,452,964	13,888,526	12,435,562 *
1892.....	91,102,754	71,326,080	19,776,674 *	9,729,753	22,883,757	13,154,004 *
1893.....	89,712,865	88,257,172	1,455,693 *	12,289,188	11,186,487	1,102,701
1894.....	113,246,086	117,481,955	4,235,869	34,379,111	26,783,653	7,595,458
1895.....	136,112,178	129,260,578	6,851,600 *	27,301,699	5,874,164	21,427,535
1896.....	117,842,761	171,674,474	53,831,713	11,598,884	39,142,208	27,543,324 *
1897.....	163,135,077	219,300,772	56,165,695	19,219,164	81,466,713	62,247,549 *
1898.....	165,753,753	277,502,157	111,748,404	86,987,481	42,563,781	44,423,700
1899.....	214,929,804	220,401,926	5,472,032	11,178,247	20,163,501	8,985,254 *
1900.....	204,429,994	287,261,846	82,831,852	56,707,063	11,517,835	45,189,228
1901.....	252,349,543	255,816,646	3,467,102	14,049,099	10,960,750	3,088,349
1902.....	258,303,065	271,731,259	13,428,194	2,028,982	32,161,358	30,132,376 *
1903.....	289,502,442	371,135,518	27,633,076	19,001,199	27,807,469	8,806,270 *
1904.....	319,260,896	371,360,738	52,099,842	107,795,859	33,946,656	73,849,203
1905.....	321,533,610	488,538,017	167,004,407	16,354,757	31,506,973	15,152,216 *
1906.....	423,754,892	418,784,108	4,970,784 *	25,784,436	47,211,197	21,426,761 *
1907.....	432,412,873	494,467,346	62,054,473	18,759,285	8,256,503	10,502,782
1908.....	378,245,673	436,257,462	58,011,789	3,772,502	17,544,486	13,771,984 *
1909.....	413,112,511	394,198,843	18,913,668 *	6,584,327	79,587,502	73,003,175 *
1910.....	458,428,996	464,233,808	5,804,812	25,175,091	17,671,797	7,503,294
1911.....	447,433,888	513,805,705	66,371,817	24,398,236	6,168,268	18,230,018
1912.....	526,981,842	618,992,277	92,010,435	28,325,153	11,544,351	16,780,802
1913.....	632,460,213	729,431,644	96,971,431	27,093,346	1,021,351	26,071,995

* Shows the excess of exportation in the case of merchandise, and the excess of importation in the case of gold and silver.

[1] The amount of foreign trade in the colonies and special articles for the army and navy were not taken into account in this table.

Still the rise of prices went on and on, which, together with the growth of the enterprising spirit, helped on the excess of importation. So long as there was abundant specie abroad, due to foreign loans, specie flowed in in no small amount. From 1910, however, there was an efflux of no small amount of specie until 1913.

In short, the excess of importation and efflux of specie from the Restoration until 1881 were occasioned by the overissue of inconvertible paper money. The same phenomenon which occurred after the Sino-Japanese War must be attributed in the main to the indemnity and the issues on the security reserve, although war loans were responsible for it to a small extent, especially at the outset. The excess of importation and the outflow of specie was wholly due to war loans and conversion loans. The table on the preceding page shows the importation and exportation of merchandise, gold, and silver, which is intended to prove the foregoing statement.

Effects on Domestic Trade

The effects of the issue, redemption, etc., of the war and armament loans upon the domestic trade are either general or indirect and can not be said to be very clear. With the issue of the government paper money during the war of the Restoration prices rose and money interest became very high. Our economic organization left a great deal to be desired and was, moreover, in great disorder. Notwithstanding the strenuous endeavors of the government to promote the public finance and money circulation by encouraging productive industries and the establishment of joint stock companies, all the trading, exchange and shipping companies which had been started ended in failure immediately after their organization. In 1873, with the establishment of the National Bank System, there cropped up all sorts of enterprises such as railway, mail steamer, copper manufacture, cotton spinning, paper manufacture, gas, insurance and other companies. At the time of the Satsuma Rebellion in 1877, however, the inflation of inconvertible paper money, together with the increased issue of bank paper money, gave rise to immense fluctuations both in

prices and in money interest, and nipped in the bud the enterprises which had just been cropping up. During the period extending from 1881, which was a beginning of the paper money readjustment scheme, to 1885, there was a general depression of the business world and all sorts of enterprises seemed to have gone to the ground. In point of fact, however, insurance, transportation, cotton spinning and the banking business made during this period a salutary development. With the establishment of the convertible notes system in 1886 the business world became active. Various companies and factories were started to conduct such businesses as railway, shipbuilding, machine manufacture, cotton spinning, mining, textile industry, gas, electric light, paper manufacture, marine product, brick, fertilizer, glass, engineering and other companies. All sorts of stocks and bonds witnessed a boom. Reaction, however, set in in 1890, attended with extreme stiffening of monetary circulation, and a cry of panic was heard on all sides. But owing to the monetary relief afforded by the government, and by the Bank of Japan, business prosperity was restored, and after 1892 various undertakings promised a salutary development. During the Sino-Japanese War in 1894–1895 no small amount of temporary loans and military loans was floated, and a little later armament loans were issued as government undertakings loans. Except at the very outset these did not interfere with the projects of private enterprise. With the restoration of peace, the receipt of indemnity, and the expansion of specie reserve, money interest fell. As a consequence, such enterprises as railways, shipping, coal mining, insurance, dock construction, hydro-electricity, cotton spinning, sugar refining, kerosene refining, railway car building and other companies rapidly grew up. An unheard-of boom was witnessed in the stock market, which naturally resulted in the springing up of many bubble companies. In 1890 a great amount of convertible notes was issued in connection with the Boxer Uprising, which advanced prices and brought about a great efflux of specie. In consequence there was a great stringency of monetary circulation after 1891, and

it was not before 1903 that signs of recovery were witnessed in the industrial world.

During the Russo-Japanese War of 1904–1905 the flotation of domestic loans and temporary loans at the outset of the conflict discouraged new enterprises. Immediately afterwards, however, an immense amount of capital was introduced through the flotation of foreign loans, which brought about sluggishness in monetary circulation and the fall of money interest. As a result, in 1906, when the war came to an end, the market grew brisk and the stock market witnessed a great increase of transactions. Popular enthusiasm seemed to center upon new enterprises. The starting and the expansion of the companies during the period was such that it reached the astonishing figures of over 1,600,000,000 *yen*. There were started also numerous bubble companies. Reaction came, and in January, 1907, the quotation of stocks suffered a terrible slump, spreading consternation and panic in the market. The banks and the companies which stood upon a feeble basis tottered down to bankruptcy. This seems to have proved a sort of natural selection, and the normal state of things was about to be restored, when the increased issue of foreign loans, by way of conversion in 1910, brought down the money interest and occasioned a sudden rise in prices, which stirred up the enterprising spirit. A reactionary phenomenon was observed from 1910 until 1912, when stringency of monetary circulation impeded the government and private undertakings.

In short, we may safely conclude that the failure of enterprises from the Restoration until about 1873, the unsteadiness of enterprises from the Satsuma Rebellion until 1881, the contraction of new enterprises at the outset of the Sino-Japanese War, the depression of enterprises in 1901 and the unsteadiness and fluctuations of enterprises and stocks which ended in a panic during the Russo-Japanese War, are in the main due to the flotation and conversion of war and armament loans. The following tables, showing the yearly condition of business companies and negotiable securities, tend to prove the foregoing statement.

CAPITAL OF COMPANIES[1]

Calendar Year	Agriculture		Industry		Commerce		Transportation		Total	
	No. of Companies	Amount of Capital	No. of Companies	Amount of Capital	No. of Companies	Amount of Capital	No. of Companies	Amount of Capital	No. of Companies	Amount of Capital
		Yen		*Yen*		*Yen*		*Yen*		*Yen*
1884	61	1,234,562	379	5,048,299	654	8,987,560	204	6,891,534	1,298	22,161,955
1885	78	1,450,370	496	7,770,728	625	15,854,183	80	25,584,603	1,279	50,659,884
1886	85	1,052,923	1,097	14,725,202	315	9,935,437	158	24,773,170	1,655	50,786,732
1887	144	2,924,102	1,361	20,010,513	374	19,239,069	159	25,681,784	2,038	67,855,468
1888	204	5,961,936	1,694	39,032,471	545	21,409,075	150	51,266,499	2,593	117,669,981
1889	430	8,118,592	2,259	70,199,164	1,079	35,438,012	299	69,859,309	4,067	183,615,077
1890	463	8,229,982	2,284	77,529,926	1,201	36,086,386	346	103,630,846	4,296	225,477,140
1891	399	6,314,532	2,480	70,292,808	1,095	28,118,555	332	94,862,604	4,306	199,588,499
1892	361	4,437,745	2,746	69,016,402	1,081	30,547,417	319	94,744,592	4,507	198,746,156
1893	171	2,542,204	2,919	78,258,527	848	38,724,194	195	90,340,174	4,133	209,865,099
1894	118	1,188,203	778	44,589,762	998	20,014,874	210	82,560,279	2,104	148,353,118
1895	126	1,522,409	944	58,728,656	1,151	23,835,358	237	89,960,835	2,458	174,047,258
1896	117	1,666,160	1,366	89,900,900	2,778	192,780,712	334	113,216,760	4,595	397,564,532
1897	148	2,229,627	1,881	105,381,106	3,650	260,227,479	454	164,684,165	6,113	532,522,377
1898	166	2,336,720	2,164	122,066,653	4,178	300,039,664	536	197,233,421	7,044	621,676,458
1899	176	2,303,685	2,253	147,783,280	4,619	335,586,700	583	198,146,560	7,631	683,820,225
1900	220	2,614,509	2,554	158,851,730	5,197	389,051,555	627	228,733,512	8,598	779,251,306
1901	206	2,645,776	2,477	166,293,003	5,323	417,292,333	596	243,224,584	8,602	829,455,696
1902	214	2,551,284	2,427	173,232,689	5,525	440,303,057	646	262,676,192	8,612	878,763,222
1903	249	3,106,886	2,441	170,346,340	5,855	451,680,028	702	262,382,936	9,247	887,606,190
1904	238	3,220,857	2,384	162,836,203	5,609	455,822,613	682	309,412,473	8,913	931,292,146
1905	231	3,368,900	2,449	189,414,059	5,630	466,404,498	696	316,649,008	9,006	975,836,555
1906	250	4,870,357	2,546	267,118,424	5,840	500,588,598	694	317,378,704	9,330	1,089,956,083
1907	309	12,035,192	2,847	381,815,109	6,197	360,486,328	734	150,891,189	10,087	1,114,227,818
1908	332	13,069,137	3,065	440,857,176	6,555	396,702,681	768	164,757,766	10,720	1,215,386,760
1909	369	14,752,822	3,405	542,280,237	6,941	634,441,463	814	175,689,682	11,549	1,367,164,204
1910	386	16,894,519	3,672	580,117,898	7,394	687,792,486	856	196,596,551	12,308	1,481,401,454
1911	422	18,008,481	3,921	629,543,440	7,783	735,748,629	905	166,663,283	13,031	1,549,963,833
1912	475	26,334,942	4,403	677,794,564	8,004	864,439,783	1,005	188,041,122	13,887	1,756,610,411

[1] Based on *Imperial Statistical Year Book* and on *Reference Book Concerning Monetary Affairs*. The amounts of capital prior to 1893 are subscribed capital, while those after that date are paid-up capital. The banks have been taken into account after 1896, but excluded from the figures prior to that date.

MARKET PRICE OF SECURITIES FOR SPOT SALE IN TOKYO

Year	Consolidated Bonds (Sum Paid Up, 100 *Yen*)	Bank of Japan Stocks (Sum Paid Up, 200 *Yen*)	Yokohama Specie Bank Stocks (Sum Paid Up, 100 *Yen*)	Japan Railway Co. Stocks (Sum Paid Up, 50 *Yen*)	Nippon Yusen Co. Stocks (Sum Paid Up, 50 *Yen*)	Kanegafuchi Cotton Spinning Co. Stocks (Sum Paid Up, 50 *Yen*)	Tokyo Stock Exchange Stocks (Sum Paid Up, 50 *Yen*)
	Yen	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*
1893.....	106.89	....	247.93	112.82	71.39	59.81	437.03
1894.....	105.27	....	229.58	98.35	68.97	52.07	248.30
1895.....	99.69	299.75	245.34	97.12	84.14	58.14	337.87
1896.....	100.34	386.69	284.37	111.01	90.34	65.44	497.22
1897.....	97.91	374.62	202.25	93.14	63.26	55.55	289.47
1898.....	93.89	370.58	175.66	67.95	51.16	43.67	157.09
1899.....	96.15	391.80	247.92	74.04	66.81	49.75	221.28
1900.....	89.46	414.86	187.76	71.56	63.92	44.13	167.99
1901.....	84.87	392.78	160.69	68.86	67.99	33.58	131.39
1902.....	85.48	393.28	175.17	74.53	78.44	41.14	155.58
1903.....	89.92	406.69	180.52	78.16	83.35	41.22	173.05
1904.....	84.77	403.10	164.55	75.28	75.45	37.58	163.81
1905.....	81.68	520.72	183.49	82.25	88.22	79.20	209.96
1906.....	90.99	651.21	246.40	103.96	109.33	140.93	329.14
1907.....	86.52	690.25	254.86	92.60	100.10	139.35	258.16
1908.....	82.47	551.88	205.72	90.88	83.18	85.15	115.30
1909.....	93.15	664.35	227.30	....	79.75	99.99	153.78
1910.....	100.53	642.79	284.88	....	95.53	108.09	212.12
1911.....	98.28	569.58	255.59	....	100.96	102.81	158.65
1912.....	92.09	541.46	214.57	....	115.90	111.77	154.46

CHAPTER V

SOCIAL EFFECTS

It is no easy task to point out the effects of war and armament loans upon social life. There is no doubt, however, that the increased issue of paper money and convertible notes, the increase of taxes in connection with the national loans expenditure, and the changes of the money market, together with other circumstances, had some effects upon the prices of commodities, wages and other incomes, burdens and savings of individuals. These effects in turn must have exerted some influence upon the migration between town and country and upon migration abroad. In the following pages we shall consider these points in connection with the statistics available. These statistics, however, do not treat of the figures prior to 1889, which makes comparison very difficult. Moreover, these points are more fully treated in another part. We shall, therefore, confine ourselves to a bird's-eye view of important points, so far as the statistics exist.

PRICES

With regard to the investigation of the prices of commodities in general we shall refer the reader to another part, where it will be more fully discussed. We shall not here go any further than to pick out four or five important commodities and show the statistics with regard to them. Index numbers of general prices will also be added for the convenience of the reader.

The fluctuations of the price of rice were brought about through divers agencies and are not attributable to war and armament loans alone. The price of rice witnessed a remarkable appreciation in 1879, 1880 and 1881. Again it rose in 1897 and 1898 upon the conclusion of the Sino-Japanese War. It rose again in 1906 upon the termination of the Russo-Japa-

nese War, which condition of things continued till 1912. There is no doubt that these appreciations were due to the inflation of currency which, in turn, was brought about by the increased issue of paper money and convertible notes in connection with the war. Thus, the present price of rice is four times as high as that of 1875.

The statistics of prices with regard to salt and soy before 1885 are not available. Sudden rises took place, however, in 1895, 1897 and in 1898. Further, they witnessed remarkable appreciations in 1905, which have continued to this day. Their present price is from 300 per cent to 360 per cent higher than that of 1886. Its chief cause is to be traced to the salt monopoly subsequent to 1906, but at the same time it is statistically certain that the inflation of currency due to the flotation of war loans was also responsible for it. Moreover, after the war the receipt from the salt monopoly formed the resource for the redemption of the war loans, which makes the connection between the rise of the price of salt and war loans a much closer one.

The statistics of the prices with regard to sugar and kerosene previous to 1885 are also lacking. They witnessed a remarkable appreciation during the Sino-Japanese War, and rose still further after the Russo-Japanese War. Sugar especially was subjected to several increased taxes which helped this rising tendency. The present prices of sugar and kerosene are twice as high as those of 1886. The chief cause lay in the increase of taxation. But inasmuch as this rise kept pace with the inflation of currency, and inasmuch as the increase of taxes after the Russo-Japanese War was chiefly for the redemption of war loans, we can not but recognize the influence of war loans in this connection.

The prices of *sake* and tea did not have similar tendencies. *Sake* was a taxed article, and the rate of the tax was increased several times. Moreover, it could not escape the influence caused by the appreciation of the price of rice. The first sud-

den rise took place during 1879, 1880 and 1881 through the inflation of inconvertible paper money. It witnessed its second appreciation after 1895. The third rise began in 1905 and has continued to this day. Its present price is six times as much as that of 1875. The chief cause lies undoubtedly in taxation, but presumably the inflation of currency was also responsible. On the other hand, tea was an untaxed article. Statistics are lacking with respect to it prior to 1885. The first rise after 1886 took place during the period extending from 1894 to 1904. Its second appreciation was after 1905. The rising tendency was not as remarkable as in other commodities. Its present price is only 260 per cent higher than that of 1886. It was due to the general improvement of the standard of living and to currency inflation that the price made some appreciation despite the unfavorable condition of the market.

The prices of cotton and spinning yarn similarly appreciated. Its first advance after 1886 was in 1896, the second rise began in 1905, and it kept up the tendency until 1912. Present prices are 260 per cent to 290 per cent higher than those of 1886. Both cotton and spinning yarn are untaxed or lowly-taxed commodities. It was undoubtedly due to the general trend of high prices, which was caused by inflation of currency, that there was such remarkable appreciation despite the unfavorable condition of the market.

Lastly, about the average index number: The index number prior to 1886 had as its standard the prices of commodities in 1878. It witnessed a slight appreciation during the period extending from 1875 to 1879, when there was an increased issue of inconvertible paper money. The index numbers after 1887 had as their standard the prices of 1887. They showed a gradually rising tendency which was especially remarkable after 1895. The third appreciation began in 1905, and has continued to the present day. The present price is 250 per cent higher than that of 1887.

PRICES OF COMMODITIES, 1875 TO 1912[1]

Year	Rice per *Koku*	Salt per *Koku*	Soy per *Koku*	White Sugar per 100 *Kin*	Petroleum per Box	*Sake* per *Koku*	Tea per 100 *Kin*	Cotton Ginned Per 100 *Kin*	Cotton Yarn per 100 *Kin*	Index Number
	Yen	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*	
1875	4.95	....	....	....	....	7.53	....	....	....	102
1876	4.26	....	....	....	....	6.22	....	....	....	102
1877	4.22	....	....	....	....	6.33	....	....	....	102
1878	5.17	....	....	....	....	7.61	....	....	....	100
1879	7.00	....	....	....	....	11.06	....	....	....	100
1880	9.28	....	....	....	....	14.39	....	....	....	93
1881	9.09	....	....	....	....	16.86	....	....	....	90
1882	7.64	....	....	....	....	15.01	....	....	....	90
1883	5.49	....	....	....	....	13.31	....	....	....	91
1884	4.71	....	....	....	....	12.38	....	....	....	94
1885	5.86	....	....	....	....	15.80	....	....	....	99
1886	5.08	1.36	8.67	9.33	1.99	13.42	28.30	19.43	29.75	96
1887	4.71	1.19	8.29	8.77	2.02	13.93	26.09	18.52	31.04	99
1888	4.37	1.06	8.31	8.61	2.22	12.87	24.48	19.23	32.37	103
1889	5.56	1.48	8.95	9.54	2.27	13.45	24.66	21.65	31.63	108
1890	8.15	2.06	9.37	9.89	1.95	14.38	25.67	20.19	28.17	113
1891	6.86	1.55	9.11	8.62	1.75	14.24	25.47	18.72	26.27	113
1892	7.00	1.49	9.38	9.26	1.81	14.24	28.66	18.89	26.95	116
1893	7.08	1.34	8.83	10.02	1.85	14.03	26.77	19.73	28.35	119
1894	8.04	1.20	9.13	10.77	1.95	15.32	30.02	19.28	29.20	132
1895	8.21	1.39	9.57	10.35	2.38	17.23	30.26	20.37	31.54	135
1896	9.32	2.53	10.88	11.08	2.39	19.87	30.20	22.17	29.98	145
1897	11.70	3.29	13.56	12.61	2.28	24.63	34.62	24.35	33.08	161
1898	13.15	3.13	15.22	12.30	2.28	28.73	37.45	23.09	31.98	170
1899	9.84	2.43	16.38	12.12	2.97	27.83	35.10	24.46	28.66	170

[1] Based on *Statistical Year Book*. For Index Numbers, *Reference Book Concerning Monetary Affairs* has been relied upon.

PRICES OF COMMODITIES, 1875 TO 1912—*Continued*

Year	Rice per *Koku*	Salt per *Koku*	Soy per *Koku*	White Sugar per 100 *Kin*	Petroleum per Box	*Sake* per *Koku*	Tea per 100 *Kin*	Cotton Ginned Per 100 *Kin*	Cotton Yarn per 100 *Kin*	Index Number
1900.....	11.34	2.06	17.81	11.03	2.97	32.42	38.72	28.41	33.14	183
1901.....	11.50	1.96	17.60	10.27	2.70	33.89	26.36	28.74	34.47	175
1902.....	12.03	2.10	17.53	10.34	2.55	33.86	36.31	25.50	33.12	171
1903.....	13.90	2.26	18.29	10.76	2.91	34.48	39.94	24.02	33.74	183
1904.....	13.02	2.01	19.74	13.00	3.24	35.04	38.57	27.37	39.08	194
1905.....	12.46	3.95	22.77	15.34	3.23	37.58	38.94	32.31	43.64	213
1906.....	14.12	4.99	23.53	14.61	3.38	40.31	40.86	33.14	44.46	216
1907.....	15.73	4.68	23.53	14.67	3.63	40.56	42.06	22.51	43.75	233
1908.....	15.22	4.63	23.95	16.15	3.87	42.56	44.40	31.68	37.94	226
1909.....	12.65	5.01	23.39	17.49	3.74	42.40	45.95	33.77	40.00	215
1910.....	12.72	4.89	23.03	17.59	3.81	40.31	39.38	36.32	42.38	221
1911.....	16.96	4.80	23.02	18.55	3.63	46.41	45.83	39.93	50.56	245
1912.....	20.30	4.76	24.81	20.64	3.99	48.78	47.58	37.53	48.81	...

INCOMES

We have seen in the foregoing section that the prices of commodities doubled many times. If the income of the people made a corresponding increase we should have no apprehension of the lowering of the standard of living; on the contrary, it would be rather a matter of congratulation inasmuch as it would indicate a natural course of things in the development of the economic life of the nation. If, however, the increase of income did not go hand in hand with the rise of prices it would be a matter of great regret. We shall examine, therefore, the fluctuations of income in these paragraphs.

The statistics concerning the income of the nation are anything but perfect. There are some statistics indeed which are based on guess work, but even they relate only to recent times and do not cover any sufficient space of time. We shall, therefore, confine ourselves to the observation of the amount of individual income belonging to income tax, Class No. 3, and to

PURPOSES OF INCOME TAX AND AMOUNT OF INCOME

Fiscal Year	Class I—Income of Judicial Persons	Class II—Interest on Public Bonds and Debenture	Class III—Individual Income	Total	Taxpayers in Class III	Per Capita Income of Taxpayers in Class III
	Yen	*Yen*	*Yen*	*Yen*	*Yen*	*Yen*
1887.....	....	....	91,313,444	91,313,444	....	....
1888.....	....	....	80,860,753	80,860,753	129,086	626.410
1889.....	....	....	78,881,863	78,881,863	115,643	682.115
1890.....	....	....	81,047,372	81,047,372	115,833	703.144
1891.....	....	....	82,059,320	82,059,320	115,945	707.743
1892.....	....	....	83,453,130	83,453,130	117,094	712.908
1893.....	....	....	91,313,444	91,313,444	124,077	735.930
1894.....	....	....	99,470,716	99,470,716	129,327	769.914
1895.....	....	....	107,553,679	107,553,679	134,732	798.278
1896.....	....	....	127,298,087	127,298,087	151,037	842.822
1897.....	....	....	147,674,419	147,674,419	172,763	854.780
1898.....	....	....	168,480,424	168,480,424	195,292	862.710
1899.....	60,809,987	2,473,711	204,117,462	277,603,069	....	....
1900.....	89,761,613	11,847,052	253,251,341	365,124,578	....	....
1901.....	87,080,324	12,925,297	291,256,213	392,851,052	....	....
1902.....	90,718,198	12,905,400	326,230,305	432,090,791	587,809	555.000
1903.....	94,334,438	14,014,019	366,931,266	478,421,448	648,976	585.330
1904.....	93,736,019	13,748,617	395,262,894	507,067,624	700,576	723.786
1905.....	123,233,248	10,095,553	424,493,678	562,303,149	755,338	562.000
1906.....	139,447,043	9,069,424	466,219,915	618,795,998	827,516	563.638
1907.....	127,533,008	21,784,789	515,457,997	671,635,319	817,079	635.750
1908.....	132,672,234	33,794,757	640,132,021	806,602,014	1,124,594	569.214
1909.....	125,910,237	16,261,883	689,722,392	831,894,512	1,231,467	560.060
1910.....	119,602,935	7,210,008	698,004,957	824,817,900	1,256,535	555.500
1911.....	148,963,315	11,858,451	708,101,914	868,923,680	1,275,718	555.060
1912.....	180,546,689	14,191,555	765,425,742	960,163,986	1,342,071	495.820

Wages of Laborers[1]

Year	Carpenters	Plasterers	Masons	Tile-makers	Cabinet-makers	Shoe-makers	Black-smiths	Compositors	Per Cent Male and Female	Fishermen	Day Laborers
	Sen	*Sen*	*Sen*	*Sen*	*Sen*	*Sen*	*Sen*	*Sen*	*Sen*	*Sen*	*Sen*
1894	30.2	30.7	34.7	33.1	28.5	30.6	29.0	22.4	M. 17.3 F. 10.7	21.0	20.6
1895	31.5	31.7	35.7	32.9	30.7	30.5	28.5	23.0	M. 18.5 F. 11.3	23.1	22.1
1896	38.0	38.1	41.2	39.9	34.8	33.0	32.9	26.0	M. 20.6 F. 12.9	29.8	26.2
1897	43.7	43.2	47.1	47.0	39.5	38.3	39.2	28.3	M. 24.7 F. 16.0	32.7	28.6
1898	46.8	46.0	50.9	47.8	45.3	42.3	41.1	30.7	M. 27.5 F. 17.8	33.7	32.7
1899	50.6	49.5	57.3	54.3	46.4	45.4	45.3	34.8	M. 26.2 F. 16.9	34.3	34.4
1900	53.5	54.0	60.5	58.5	50.5	47.3	47.5	35.3	M. 29.5 F. 19.0	38.0	36.5
1901	59.3	59.0	67.0	64.0	56.8	50.5	48.8	39.5	M. 32.0 F. 20.0	33.8	39.0
1902	58.3	59.3	69.8	63.5	56.3	53.8	51.5	41.8	M. 32.3 F. 19.3	34.3	39.0
1903	58.8	61.0	68.3	65.0	55.5	53.5	52.3	40.5	M. 31.3 F. 19.0	37.3	40.0
1904	58.8	59.5	65.3	63.8	53.0	56.3	54.5	41.3	M. 32.5 F. 19.8	33.3	40.3
1905	60.3	69.8	66.3	64.5	55.3	56.5	55.0	42.0	M. 32.0 F. 20.0	41.5	42.5
1906	64.5	65.3	73.3	73.3	61.3	57.8	56.5	44.3	M. 33.8 F. 20.3	40.0	42.3
1907	74.8	76.3	86.5	87.3	71.3	57.8	64.5	49.3	M. 35.8 F. 22.0	46.5	48.5
1908	81.3	84.0	95.8	96.5	77.8	62.8	67.5	50.8	M. 38.5 F. 22.8	50.5	52.5
1909	80.0	81.8	92.8	94.0	76.0	65.5	67.3	51.0	M. 38.3 F. 23.0	48.0	52.0
1910	80.0	83.0	92.8	95.0	76.3	66.8	69.0	51.3	M. 39.3 F. 23.8	53.8	53.3
1911	83.2	86.2	94.0	99.5	78.2	65.0	70.0	53.7	M. 41.5 F. 25.2	59.2	56.0

[1] Based on investigation made by the Department of Finance.

wages of various laborers. The taxable incomes are the incomes of people of property and of high-class employers. The aggregate amount multiplied almost tenfold, but the number of taxpayers increased more than ten times. Thus the amount of income per capita rather showed a decrease.

Wages (the income of laborers) progressed with the rise of prices, but the advance was only from 200 per cent to 260 per cent and did not keep pace with the advance of such necessaries of life as rice and salt.

Public Burdens and Savings

The most important point which must be investigated in connection with income is the burden upon the people resulting from public expenditures. If we deduct from the income public burdens and necessary cost of living, the remainder may be said to be the saving of the nation. The increase and decrease of savings have great influence upon society. We show in the following table the public burdens imposed by the state and local bodies, and the amount of postal savings which is representative of saving in general. The burden of public expenditure remarkably increased, so much so that it is now five times as much as prior to the Sino-Japanese War. The amount of postal savings per capita, on the contrary, shows a tendency to decrease.

The tables on pages 209 and 210 show that the amount of income and saving per capita showed no signs of advance, that the burden of national expenditures and local rates suffered a remarkable increase, and that the wages of low-class laborers, though showing an increase, did not keep pace with the rise of the prices of commodities. Thus the poorer classes found increasing difficulty in getting a living.

Population

With regard to the migration of the population, we shall consider both internal and international migration. There was

BURDEN OF PUBLIC EXPENDITURES, AND PER CAPITA AMOUNT OF POSTAL SAVINGS[1]

Fiscal Year	Per Capita Amount of National Taxes	Per Capita Amount of Local Rates	Total	Per Capita Amount of Postal Savings
	Yen	*Yen*	*Yen*	*Yen*
1879	1.48	0.68	2.16	18.67
1880	1.45	0.76	2.21	18.33
1881	1.62	0.96	2.58	21.09
1882	1.76	0.98	2.74	22.90
1883	1.66	0.91	2.57	26.42
1884	1.62	0.88	2.50	37.26
1885	1.26	0.75	2.01	30.86
1886	1.57	0.84	2.41	31.53
1887	1.56	0.78	2.34	30.69
1888	1.49	0.76	2.25	28.52
1889	1.63	0.99	2.62	25.47
1890	1.47	1.11	2.58	23.59
1891	1.47	1.12	2.59	24.35
1892	1.49	1.15	2.64	24.08
1893	1.54	1.19	2.73	24.67
1894	1.87	1.29	3.16	23.36
1895	2.02	1.43	3.45	23.68
1896	3.95	1.69	5.65	22.26
1897	5.16	1.22	6.38	20.68
1898	5.02	1.47	6.49	17.91
1899	5.74	1.85	7.59	16.91
1900	6.53	1.95	8.48	12.30
1901	5.87	2.10	7.97	11.64
1902	6.28	2.21	8.49	10.48
1903	5.34	2.18	7.52	9.16
1904	5.87	1.74	7.61	8.62
1905	8.83	1.82	10.65	9.46
1906	9.64	2.06	11.70	11.05
1907	12.34	2.49	14.83	12.10
1908	12.75	2.77	15.52	12.62
1909	10.60	3.03	13.63	12.94
1910	11.16	3.07	14.23	15.07
1911	11.33	3.05	14.39	16.07
1912	11.12	3.47	14.59	16.06

[1] Based on *Imperial Statistical Year Book*, *Tax Bureau Year Book*, and *A Survey of Local Finance*, published by the Home Department.

The per capita amount of national taxes to 1893 was calculated by excluding customs duties. The figures after 1894 are the per capita amount of total expenditures of the general account. This expedient was taken, because after 1894 the proceeds of monopoly, receipt out of the sale of stamps, etc, make the calculation exceedingly complex.

Local rates are the per capita amount of the sum levied by "Do," "Fu," Cities, Towns, Villages, and "Kumiai." Miscellaneous local receipts were excluded, to avoid repetition. Postal savings are per capita amounts outstanding at the end of each year. It should be kept in mind that the number of depositors greatly increased, showing the great advance of the saving spirit.

INCOME, SAVINGS AND BURDEN OF PUBLIC EXPENDITURES[1]

Year	Per Capita Amount of Income	Per Capita Amount of Postal Savings	Index Number or Amount of Wage, Laborers in Tokyo		Index Number of Prices	Per Capita Amount of National Taxes and Local Rates
	Yen	*Yen*				*Yen*
1873....	....	....	96		95	1.88
1874....	....	....	98		99	2.45
1875....	....	8.26	100		102	2.04
1876....	....	9.42	104		102	1.73
1877....	....	17.38	102		102	1.39
1878....	....	20.25	102		100	1.75
1879....	....	18.67	98		100	2.16
1880....	....	18.33	87		93	2.21
1881....	....	21.09	78		90	2.58
1882....	....	22.90	86		90	2.74
1883....	....	26.42	78		91	2.57
1884....	....	37.26	86		94	2.50
1885....	....	30.86	104		99	2.01
1886....	....	31.53	117		96	2.41
1887....	....	30.69	122		99	2.34
1888....	626.41	28.52	126		103	2.25
1889....	682.11	25.47	126		108	2.62
1890....	703.14	23.57	123		113	2.58
1891....	707.74	24.35	120		113	2.59
1892....	712.90	24.08	123		116	2.64
1893....	735.93	24.67	124		119	2.73
1894....	769.91	23.36	126		132	3.16
			Peasant	Carpenter		
			Sen	*Sen*		
1895....	798.27	23.68	18.5	31.5	135	3.45
1896....	842.82	22.26	20.6	38.0	145	5.65
1897....	854.78	20.68	24.7	43.7	161	6.38
1898....	862.71	17.91	27.5	46.8	170	6.49
1899....	....	16.91	26.2	50.6	172	7.59
1900....	....	12.30	29.5	53.5	183	8.48
1901....	....	11.64	32.0	59.3	175	7.97
1902....	555.00	10.48	32.3	58.3	171	8.49
1903....	585.33	9.16	31.3	58.8	183	7.52
1904....	723.78	8.62	32.5	58.8	194	7.61
1905....	563.00	9.46	32.0	60.3	213	10.65
1906....	563.63	11.05	33.8	64.5	216	11.70
1907....	635.75	12.10	35.8	74.8	233	14.83
1908....	569.21	12.62	38.5	81.3	226	15.52
1909....	560.06	12.94	38.3	80.0	215	13.63
1910....	555.50	15.07	39.3	80.0	221	14.23
1911....	555.06	16.07	41.5	83.2	245	14.39
1912....	405.82	16.06	....	....	...	14.59

much migration from country to city, on the one hand, and, on the other hand, migration abroad. This was a natural result of the concentration of capital and the sudden increase

[1] Wages for 1873 and 1874 are the average index number of per diem amount of the wages of various laborers, and were calculated at the time of the investigation concerning monetary reform, putting the average wages in 1875 at 100. There have been no similar investigations with regard to the wages since 1895. We have therefore inserted, above, the maximum and minimum wages of farmers and carpenters according to the *Statistical Year Book*.

Per capita amount of national taxes is calculated upon the basis of the annual total amount of national expenditures, while per capita amount of local rates is calculated on the basis of the local income, styled "amount of imposition of each fiscal year."

of prices and burdens. This tendency after every great war is intensified by war loans.

It is rather difficult to get any appropriate statistics concerning the migration of city population. In accordance with Cabinet Instruction No. 1, November, 1891, however, a census of the actually resident population was taken every five years. The investigations in 1903 and 1908 show the general tendency of internal migrations:

Population of Japan	1903	1908	Increase
Cities	6,809,976	8,299,744	1,489,768
Towns	6,890,295	7,901,233	1,010,938
Villages	34,842,465	35,540,886	698,421
Total	48,542,736	51,741,853	3,199,117

The above table shows that there was an unmistakable tendency toward concentration of population in cities. It was no less evident that this phenomenon was most conspicuous in large cities, as is shown in the following table:

INCREASE OF POPULATION IN LARGE CITIES[1]

Cities	Population Actually Resident, When City Regulation Came into Force (1889)	End of 1913	Increase During Twenty-four Years	Rate of Increase Percentage
Tokyo	1,389,640	2,033,320	643,680	46
Kyoto	257,229	408,068	150,839	58
Osaka	426,846	1,387,366	960,520	225
Yokohama	115,012	396,101	281,089	244
Kobe	111,678	440,766	329,088	296
Nagasaki	50,894	154,351	103,457	218
Nagoya	144,145	447,951	303,806	215
Kanagawa	99,370	127,267	27,897	27
Hiroshima	79,100	159,000	79,900	100
Sendai	74,094	97,131	23,037	32
Kure	53,903	119,060	65,157	102
Fukushima	47,402	95,423	48,021	122
Total	2,849,313	5,865,804	3,016,491	105
Population of whole country	40,072,020	53,000,538	12,928,518	32

[1] Based on *Population Statistics*, published by the Imperial Statistical Bureau. The City Regulation came into force on April 1, 1889, in all the above-mentioned cities except Kure, a comparatively new city, in which the same regulation was enforced on October 1, 1902.

With regard to the international migration the following table proves that the tendency of emigration of our people abroad was more remarkable than the incoming of foreign population, though the latter was also on the increase.

According to the preceding table the rate of increase of big cities during the last twenty-four years was by no means the same. The average rate of increase of the population of the above twelve large cities, however, was 105 per cent, while that of the whole population of the cities, towns and villages was only 32 per cent. The rate of rapidity in the former case was threefold more than in the latter.

FLUCTUATION OF POPULATION[1]

Year	Japanese Resident Abroad			Foreigners Resident in Japan		
	Male	Female	Total	Male	Female	Total
1901.....	50,515	14,558	65,073	9,662	3,762	13,424
1902.....	105,967	34,304	140,271	10,322	3,940	14,262
1903.....	116,439	38,295	154,734	9,903	3,806	13,709
1904.....	112,716	37,035	149,751	11,569	3,928	15,497
1905.....	139,317	45,175	184,492	12,573	3,985	16,558
1906.....	153,363	38,796	182,159	14,485	4,489	18,974
1907.....	158,648	75,476	234,124	14,561	4,347	18,908
1908.....	303,377	117,274	420,651	13,119	4,774	17,893
1909.....	187,958	114,658	302,616	12,539	4,796	17,335
1910.....	55,472	20,317	75,789	10,406	4,491	14,897
1911.....	123,284	61,992	185,316	10,133	4,837	14,970
1912.....	212,551	96,916	309,467	....	....	....

[1] As the figures of foreign residents in Japan prior to 1901 can not be obtained the figures after that date only are given. The figures of Japanese residents abroad are based upon the reports of government officials stationed abroad, but can not be said to be accurate owing to probable omissions.

The sudden decrease of Japanese abroad in 1909 is due to the decrease of the residents in the United States. The decrease in 1910 is, first, on account of the residents of old Korea having been left out, and, secondly, on account of the reports of Hawaiian residents having been omitted. The sudden increase in 1911 is due to the inclusion of the residents of Hawaii in the calculation. The increase in 1912 can be accounted for by the fact that the residents of the State of California in the United States and of Kwantung were added.

CHAPTER VI

CONCLUSION

The war and armament loans of Japan, first inaugurated with the government issue of paper money in connection with the Restoration War, have continued without a single break to the present day. Moreover, the amount of flotation went on increasing on account of the successive wars which occurred nearly every ten years. At first the expansion of currency was brought about by the issue of floating loans, such as government paper money, government temporary loans, Treasury bills, etc., while, later on, currency was contracted by the issue of funded loans. But their conversion usually had the effect of increasing the total amount of public loans. Especially after the Russo-Japanese War foreign loans were resumed or domestic loans were converted into foreign loans, both of which caused the issue of Treasury bills and the increase of temporary loans for the purpose of having transferred the money thus raised. The issue was so extensive that the issue of convertible notes beyond the legal limit had to be kept up continuously.

The effects upon the national finances were conspicuous. One of these was that the overissue of the government paper money and public bonds necessitated great readjustment. The most striking, however, was the annual increase of national loans expenditure, which at present occupies about one-fourth of the total national expenditures. A great share of the taxation which had been imposed in time of war is still kept up. If, to the war and armament loans expenditure, we add other military expenditures, then the total of the war and armament expenditures attains nearly one-half of the total national expenditures. The unproductive burdens upon the shoulders of the nation, therefore, can be said to be by no means small. Local finance after the Sino-Japanese War

remarkably expanded in its expenditures and loans. The burdens of the provinces, therefore, show signs of remarkable increase.

As for the effects upon the money market the adjustment of inconvertible paper money brought about the development of the banking system, which, however, can not be looked upon as an effect of war and armament loans. The flotation of foreign loans after the Boxer Uprising and the Russo-Japanese War kept up the monetary system and contributed to supplement specie abroad, which, however, was not so much due to the fact that the loans were floated in connection with war and armament, as that the loans were floated abroad. As for the effects upon money interest there was some difference between domestic and foreign loans. The flotation of domestic loans caused the expansion of currency on the one hand, but always depressed the money market on the other. The flotation of foreign loans, on the contrary, expanded the currency on one hand and brought down the rate of money interest on the other. Depreciation of money interest was only temporary. It soon caused a rise of prices, encouraged the enterprising spirit, and the market quotation of negotiable securities witnessed a boom.

Then tightness of money appeared and, not infrequently, it culminated in a panic. Moreover, the issue of big amounts of war loans and the continuation of increased taxes for the redemption of principal and payment of interest concentrated the local funds to the capital, by means of which the centralization of enterprises and labor took place. Local money markets were dried up, and were short of labor, which brought great losses. Even in cities, the fund raised by war loans and taxes was absorbed by the upper classes, and the lower classes were always devoid of means. The rate of interest affecting the lower classes rose, and many a poor citizen fell a victim to the unmerciful claws of a money lender.

With regard to the effects upon foreign commerce and industries, the increased issue of temporary loans and exchequer bonds kept up the expansion of convertible notes and the

appreciation of prices. There was an annual excess of importation over exportation, and consequent outflow of specie. The more specie reserve abroad was supplemented by the fund raised by foreign loans the more it encouraged importation, which caused no small apprehension in the minds of many people that the conversion system was approaching a crisis. Home industries made great strides with the progress of the age. But with the flotation of war loans and various changes brought about in connection with them, home industries were subjected to frequent attacks of panic. Their basis was anything but sound. Industrial companies, especially, were carried on a very small scale and the technique employed was naïve in the extreme, which made the excess of importation over exportation unavoidable. Moreover, the market quotations of negotiable securities were subjected to frequent fluctuation, which impeded enterprises and credit, and made the gathering of capital next to impossible.

Next, the effects upon society at large can not be overlooked. The concentration of money in the capital and among the upper classes made money circulation among the lower classes very tight. Though prices rose considerably with the expansion of currency, the rise of laborers' wages was merely nominal. The real wages, indeed, may be said to have been brought down. The increased imposition of consumption taxes for the redemption of war loans raised prices, and complaints of high cost of living were heard on all sides among the lower classes.

The above facts go to show that war expenditures and war loans exerted most unsalutary influences, though Japan had steadily been making remarkable progress in her political and economic condition and though the wars she carried on were mostly out of her dominions, and those always attended with victories. Had the wars been waged within her territory and ended in her defeat the results would have been appalling. In short, there is no room for any optimistic view of the economic effects of our war and armament loans.

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